

Minister *Tax*

Ministers are taxed differently from every other employee. The IRS has a unique category that leaves many ministries confused and many pastors blindsided come April 15. Here is everything you need to get it right.

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Minister Tax Overview (YouTube)



Episode 24: Minister Tax (ChurchBiz Podcast)

Why *Minister Tax* Matters

Three things make minister tax unlike any other employee tax situation. Each one has tripped up churches and cost ministers real money.

01

Dual Tax Status

Ministers are employees for income tax purposes but self-employed for Social Security and Medicare. That means SECA, not FICA. Get this wrong and you owe back taxes plus penalties.

02

Housing Allowance

Ministers can exclude a portion of compensation from federal income tax for housing. But it only works if the church has designated it in writing, in advance, in the official board minutes.

03

Heavy IRS Focus

The IRS has a department dedicated to minister tax compliance, and housing allowance is the number one thing they audit. Documentation is everything.

In This *Guide*

The full text of every ChurchBiz article included in this guide. Visit each link to view on the web.

ARTICLE 1 OF 4 • TAX • 8 MIN READ

10 Things Every Minister Needs to Know About Taxes

The complete primer on minister tax: dual status, housing allowance, SECA, opt-out rules, and the most common church mistakes.

Minister taxes are unlike anything else in the payroll world. The IRS has a unique category for ministers that leaves many churches confused, and many pastors are blindsided come April 15th. Whether you are a senior pastor, associate minister, or church administrator, these ten things will help you navigate your tax situation with confidence.

1

Ministers are taxed differently from everyone else

The IRS classifies ministers as "**self-employed**" specifically for Social Security and Medicare tax purposes. This means they fall under SECA (Self-Employment Contributions Act) rather than FICA (Federal Insurance Contributions Act), which applies to all other employees. This single distinction changes everything about how a minister handles payroll taxes.

2 Your church cannot pay Social Security and Medicare taxes for you

Unlike every other employee, the church is legally prohibited from withholding and remitting Social Security and Medicare taxes on behalf of ministers. If a church does this by mistake, it violates both FICA and SECA. Ministers are solely responsible for settling these taxes directly with the IRS.

3 You settle your SECA tax on your annual 1040, and you get a deduction

Because no one withholds it for you during the year, ministers pay their Social Security and Medicare taxes when they file their annual federal tax return. This is done by completing **Schedule SE**, which takes your wages and your housing allowance, then multiplying the total by 15.3%. That amount is then added to your Federal Income Tax liability, which is why April 15th can be a painful day for ministers who are not prepared. There is one helpful offset worth knowing: the IRS allows you to deduct the employer-equivalent half of your SECA tax (7.65%) when calculating your adjusted gross income. It does not eliminate the burden, but it does reduce it.

4 Your housing allowance is included in the SECA calculation

Many ministers are surprised to learn that their housing allowance is still included in SECA tax calculations. Per Schedule SE, the IRS specifically requires ministers to include the rental value of a home or a housing allowance, including utility payments, in their self-employment income. Note that this applies to the portion of the housing allowance **actually used for housing expenses**, not simply whatever amount was designated. Even though you do not pay Federal Income Tax on that portion of your compensation, you do owe Social Security and Medicare taxes on it.

5 The church can pay you a SECA allowance

To put ministers on equal economic footing with non-ministerial staff, churches can choose to pay a **SECA allowance of roughly 8%** of combined wages and housing allowance. This offsets the fact that regular employees pay only half of FICA (7.65%), while employers cover the other half. Ministers bear the full 15.3% themselves, so the allowance helps level the playing field.

6 Use Box 4c on your W-4 to avoid a large April tax bill

Ministers can authorize their church to withhold extra Federal Income Tax (FIT) through **Box 4c on the W-4 form**. These additional withholdings can be applied toward your total tax liability at year-end, including your SECA obligation. At a minimum, electing to withhold an amount equal to your SECA allowance (8%) is a smart starting point.

7 How much extra to withhold depends on your full financial picture

There is no one-size-fits-all answer. The correct additional withholding amount depends on your housing allowance, whether your spouse works, the number of children you claim, child tax credits, and any other income sources, such as rental properties or investments. If your situation is complex, invest in a tax professional who understands ministerial taxation.

8 You can estimate your tax debt using last year's return

If your income does not vary much year to year, a practical way to estimate your liability is to look at what you owed last year. Use that as your baseline for extra withholdings on your W-4. Factor in your spouse's most recent withholdings, do a little math, and you have a reasonable and free starting point.

9 Ministers can opt out of SECA, but the decision is irrevocable

Ministers may elect out of SECA entirely by filing **Form 4361** and receiving IRS approval. If approved, they no longer pay the 15.3% self-employment tax. However, they will not qualify for Social Security or Medicare benefits on those exempt earnings in retirement. Per IRS rules, once the exemption is approved, it is irrevocable. This is a permanent, life-altering financial decision that requires careful long-term planning before pursuing.

10 "Exempt" means something different from what most ministers think

A common misconception: when a church does not pay FICA on a minister's behalf, many ministers assume they themselves are "exempt." In reality, **it is the church that is exempt from paying FICA**. The minister is still responsible for their SECA taxes. A minister can also become individually exempt, but only by formally filing Form 4361 with the IRS and receiving approval. Do not assume exemption; verify it.

Important Reminder

The opt-out election via Form 4361 is permanent and irrevocable once approved by the IRS. Ministers who elect out of SECA will not qualify for Social Security or Medicare benefits on those exempt earnings in retirement. Always consult a tax professional before pursuing this option.

Coming Up

We will be covering minister tax in depth on our next ChurchBiz Live Q&A session. Join the Hub to get access and bring your questions directly to our CPA team.

Minister Housing Allowance: What Your Church Must Do Every Year

Housing allowance is the number one item the IRS audits for ministers. The annual board resolution and documentation process every church must follow.

Did you know the IRS has a specific department focused entirely on minister tax compliance? And the primary item they audit is the minister's housing allowance. According to IRS Topic 417, in order for a minister to exclude the housing allowance from income, the employing organization must officially designate it as such **before** paying it out. That means every year, before the first paycheck of the new year, your church needs to formally approve housing allowances for every qualifying minister on staff.

IRS Requirement

The housing allowance must be officially designated by the church BEFORE it is paid. A retroactive designation is not valid. Missing this step can disqualify the entire exclusion for that year.

The Annual Housing Allowance Process

ChurchBiz guides clients through this every year. Here is the standard four-step process churches need to follow each December and January:

1

Minister submits housing allowance request

Each minister estimates their housing expenses for the coming year and communicates their desired allowance amount. ChurchBiz provides worksheets for both homeowners and renters to help calculate a reasonable figure.

2

ChurchBiz prepares the board motion document

Once all requested amounts are received, ChurchBiz creates a formal board motion document listing the designated housing allowance for each minister in the church.

3

Board member signs the motion

A qualified church representative, board member, or elder must sign and date the board motion document, officially authorizing the designations.

4

Return signed document before year end

The signed form must be returned to ChurchBiz no later than December 27th so payroll can be updated before the new year begins. Unsigned forms mean the existing allowance carries forward, which may not reflect the minister's actual housing costs.

What Qualifies as a Housing Expense?

The IRS allows ministers to exclude the lesser of three amounts: the designated allowance, the actual amount spent on housing, or the fair rental value of the home. Qualifying expenses include rent or mortgage payments, utilities, furnishings, repairs, and maintenance. The key word is "actually used." Ministers can only exclude what they actually spend on housing, not simply the designated amount.

Important Reminder

Housing allowance is excluded from Federal Income Tax but is still included in the SECA self-employment tax calculation. See our post on minister taxes for the full picture on how SECA works.

Read on the web → <https://www.churchbiz.com/blog/housing-allowance>

Minister Tax: Things to Know

A practical rundown of minister tax rules every church and pastor needs to understand, from dual tax status to SECA obligations.

There are 3 federal payroll taxes that come into play for all organizations (for profit and not for profit): Federal Income Tax (FIT), Social Security Tax, and Medicare Tax.

Social Security and Medicare Tax are commonly combined in a term known as FICA (Federal Insurance Contributions Act) and is a flat tax of 15.3% of wages. For everyone except ministers, the IRS assesses 1/2 of the tax directly on employees and 1/2 on the employer. This tax is easy to pay over to the feds since it is a flat percentage and is calculated at the time of each payroll processing.

This is NOT the case for ministers, however. The IRS has defined ministers as "self-employed" ONLY for the purpose of settling Social Security and Medicare taxes. As such, ministers participate in SECA (Self Employment Contributions Act) rather than FICA. Because of this, the church CANNOT assess and pay SS and Medicare taxes on behalf of ministers. If a church does this by mistake, they are violating both FICA and SECA and the minister will run into problems when they apply for SS and Medicare benefits later in life.

Minister Tax

Since the church is not allowed to assess, collect, and remit SECA taxes, the responsibility rests solely on the minister to settle the tax directly with the IRS. This is accomplished when the minister files the annual 1040 tax return by completing Schedule SE. This schedule takes the minister's wages AND housing allowance and multiplies the amount by 15.3%. The SECA tax calculated then gets added to the Federal Income Tax liability on the 1040.

A minister can elect out of SECA altogether. If they do, they do not have to pay the 15.3%, but they will NOT qualify for any SS and Medicare benefits on their exempt earnings, so they must plan accordingly. They have to apply and be approved by the IRS before they can claim the exemption.

How to Move Forward

Churches should pay ministers a SECA allowance (approximately 8% of wages and housing) to align them economically with every other non-ministerial position. The minister can avoid a large tax debt due April 15th every year by electing "Extra Withholding" (box 4c) on the W-4. This way, the church is authorized to withhold extra FIT taxes and pay them over to the IRS each pay period. These FIT withholdings can be applied to the total tax liability when the minister files their return.

How much should the minister elect? The answer differs for each minister and is based on other income, family size, and other factors. A minimum of the SECA allowance amount (8%) is a reasonable starting point. If the minister has rental properties and other investments, they should work with a tax professional.

[Read on the web → https://hub.churchbiz.com/c/blog/minister-tax-things-to-know](https://hub.churchbiz.com/c/blog/minister-tax-things-to-know)

Minister Tax: Quick Overview

A concise summary of how minister taxation works and the key distinctions that separate clergy from other employees.

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A minister can elect out of SECA, but if they do, they will NOT qualify for any SS and Medicare benefits on their exempt earnings. They must apply and be approved by the IRS before claiming the exemption.

How to Move Forward

Churches should pay ministers a SECA allowance (approximately 8% of wages and housing) to align them economically with every other employee. The minister can avoid a large April 15th tax bill by electing "Extra Withholding" (box 4c) on the W-4. This authorizes the church to withhold extra FIT taxes each pay period, which can then be applied against the total tax liability at filing.

The right withholding amount differs for each minister based on other income, family size, and tax credits. At minimum, electing the SECA allowance amount is a good starting point. For ministers with more complex tax situations, working with a tax professional is worth the cost.

Read on the web → <https://hub.churchbiz.com/c/blog/minister-tax-quick-overview>

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Quick Reference

The most common questions we hear from churches on this topic.

What is the difference between FICA and SECA for ministers?

FICA is the payroll tax that employers split with employees, with each side paying half (7.65%). Ministers do not pay FICA on their ministerial earnings. Instead, they pay SECA, the self-employment equivalent, at the full 15.3% on their own. Many churches help by including a SECA reimbursement in the minister's compensation, but that reimbursement is itself taxable income.

How does a housing allowance get set up correctly?

Three things must be true for the IRS to recognize a housing allowance. First, the minister must qualify as a minister for tax purposes. Second, the allowance must be designated in writing, in advance, by an official action of the church such as a board resolution in the minutes. Third, the minister can only exclude the lesser of the amount designated, the amount actually spent on housing, or the fair rental value of the home.

Can a minister opt out of Social Security?

Only on the basis of a sincere religious or conscientious objection to receiving public insurance, not for financial reasons. The opt-out is filed on Form 4361, must be approved by the IRS, and is irrevocable. It also gives up future Social Security retirement and disability benefits earned through ministerial income.

Should the church withhold federal income tax from a minister's paycheck?

Federal income tax withholding is not required for ministers, but it is allowed if the minister and church agree to it via a voluntary withholding agreement. This is often the simplest path because it spares the minister from quarterly estimated tax payments.

Does my pastor need a W-2 or a 1099?

Almost always a W-2. A pastor or staff minister who works for a single church on a regular basis is a common-law employee under IRS rules and should receive a W-2, even though they pay SECA instead of FICA. Issuing a 1099 to your pastor is one of the most common minister tax mistakes.

NEED PERSONAL HELP?

Have Questions About Your Minister's Tax Setup?

Our CPAs work with hundreds of ministries on minister tax, housing allowance, and clergy compensation every year. If something on this page raises a concern about your own setup, we are happy to take a look.

Contact Our Team

Payroll Services