Tax Questions

**Question:** How do you calculate the amount to be paid to Social Security and Medicare?
**Answer:** Social Security and Medicare taxes combined is 15.3% of total taxable earnings.

**Question:** How can I have my taxes withheld from my paycheck each pay period?
**Answer:** You should complete a W4 form and in the box for Extra Withholding, you should enter the amount of the 15.3% of your taxable earnings per period. Your payroll person at your church should be provide you with this form and can help you calculate the amount based on your payroll cycles.

**Question:** I've been paying quarterly taxes for decades. Should I switch and how?
**Answer:** You can begin having taxes deducted from your paycheck each pay period by completing a W4 form and having your payroll person start taking the deduction you indicated on your form at the beginning of any pay period. You can change your extra withholding at any time throughout the year.

**Question:** What if a clergyperson has not been paying into Social Security and Medicare taxes, how do they fix that?
**Answer:** The only way to get back into Social Security and Medicare is to pay the taxes that should have been paid in the prior year. If more than one year has been missed, you must pay all taxes due for those years.

**Question:** I work for a small church and get paid twice a month. They tell me that they do not issue a W2. Is that wrong?
**Answer:** Every church should be issuing a W2 for the clergy and any lay employee that is employed by the church. Clergy are considered employees of the church. The confusion for some of the people doing payroll for these small churches is that the clergy status doesn’t follow the normal rules for self-employed contractors that receive a 1099 rather than a W2.

**Question:** How are the monies received from weddings and funerals handled?
**Answer:** Honorariums are considered “other income” and should be self-reported.

**Question:** Are the utilities paid by the church taxable income to clergy?
**Answer:** If the utilities are for the parsonage, they are not reported as income to the clergy, but would be a portion of the “fair rental value of the parsonage”.

**Disclaimer:** Always consult with a qualified Tax Accountant to receive advice for your specific tax issues. Tax questions are answered as tax questions. UMC policy, whether political or practices are not addressed nor considered, when responding to tax questions. Only tax issues are considered. It may be there is UMC reason for having a fixed Housing Allowance and fixed Salary, such as setting a fixed amount for the Charge Conference approval process but it is not a tax issue. The examples below are all allowable under the tax law and all result in the same taxable earnings.

**EXAMPLES**

<table>
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<tr>
<th>Salary</th>
<th>$100,000</th>
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<th>$120,000</th>
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| Housing Allowance | $20,000  | $30,000 | $-
| Housing Exclusion | $10,000  | $-      | $30,000  |
| Taxable Income Subject to FIT | $90,000 | $90,000 | $90,000 |
Housing Allowances or Housing Exclusion

**Question:** What is the difference between a housing allowance and a housing exclusion?

**Answer:** For clergy that do not have a parsonage and are full time, they are given a housing allowance in lieu of the parsonage. The housing allowance and salary are set at the charge conference. However, if the housing allowance amount does not satisfy all the cost for your home, you may choose to do a housing exclusion for the difference or ask that the salary be reduced by the amount of the housing exclusion and the housing allowance be increased.

For clergy living in a parsonage, there may be some expenses that are not covered by the church and the clergy may choose to do the housing exclusion for that amount.

**Example:** If you have a salary of $45,000 and live in a parsonage. But you want to do a housing exclusion of $4,000, then your payroll person will reduce your taxable earnings by the $4,000 and run that amount as non-taxed earnings. So $41,000 is taxable earnings and $4,000 is paid to you as non-taxed earnings.

*For complete details on housing allowance and housing exclusions, as well as the fair rental value of your home, please go to this link from GCFA:*
http://s3.amazonaws.com/Website_GCFA/services/legal/HousingAllowanceQAs.pdf

**Question:** If I take more of my salary as housing allowance, doesn’t that reduce the church contribution to my pension?

**Answer:** No. Your taxable earnings and the non-taxable earnings are pension eligible. However, the Healthcare supplement amount is not pension eligible.

**Question:** Should I get renters insurance if I live in a parsonage?

**Answer:** Yes, it is recommended that you should obtain renters insurance because the insurance on the parsonage doesn’t cover the contents in the home.

Moving Expenses

**Question:** I understand that the moving expenses are reimbursable, but I don’t understand how I am taxed on that reimbursement. What if the church pays the moving expense directly, is it taxable to me and how do they do that?

**Answer:** 1). If the moving expense is paid directly by the pastor, then the church must reimburse the pastor by paying them through payroll so it can be taxed and that amount will appear in box 1 of the W2. The moving expense amount can be processed on any regular payroll cycle. It is not necessary for your payroll person to run a separate payroll cycle for this expense.

2). If the moving expense is paid by the church, then the pastor will be paid that amount and also see a deduction for the same amount on the paycheck. This will allow the payroll system to calculate the taxes on that amount, but then do the deduction for the same amount so the church isn’t paying the pastor twice for this expense. Again, this amount should be in box 1 of the W2. This is called imputed taxes. Your payroll person should know how to do this in the payroll system. If they have questions, please have them call the Conference office and ask for Lois Durham.

**Remember:** All moving expenses are also pension eligible so the proper form should be completed and sent to the District Office to ensure you receive your pension money on this expense.
Healthcare Stipends

**Question:** Is the entire healthcare stipend considered taxable income?
**Answer:** Yes. Whatever amount you are receiving as a healthcare stipend is considered taxable earnings and should be included in box 1 on the W2.

**Question:** Can my church pay my health premiums directly so I don’t have to be taxed on that money?
**Answer:** If your church paid the health premiums for you, then it would be imputed tax. You would still need to pay the taxes just like the moving expense. It doesn’t matter who pays the bill, you are still taxed on that amount and it still must be reported as earnings in box 1 on the W2.

Pension Questions

**Question:** If I am moving from one church to another and want to continue making the same UMPIP retirement contributions as the previous church, do I have to complete a new enrollment form?
**Answer:** Yes. Your enrollment in the UMPIP terminates with the previous employer (the previous church) so you must re-enroll with the new employer, or new church. Therefore, a new election form must be completed and sent to Wespath to start your new enrollment with the new employer. If Wespath doesn’t receive your form and the new employer takes your deductions from your paycheck, the new church won’t be invoiced by Wespath so they can send your money to them.

**Question:** Who pays the Wespath invoices for the UMPIP, the clergy or the church?
**Answer:** The Wespath invoices are paid from the payroll deductions the church took from your paycheck and set in an account to remit your deductions to Wespath. UMPIP invoices can only be paid by payroll deductions.

**Question:** I am a retired clergy but plan to serve a church. Can I continue receiving my pension benefits from Wespath and be re-enrolled in the pension plan so the church can make contributions on my behalf?
**Answer:** No. Once you are in a retired status, you can no longer have contributions made into the pension plan. You cannot be considered retired and active at the same time. Either you are eligible to receive money from the pension plan or you are eligible to have contributions made into the plan, not both.

**Question:** Do I understand that I should give a dollar amount and not percentage for my UMPIP?
**Answer:** Yes if you are living a parsonage. The parsonage is calculated as part of your overall compensation which for pension purposes is 25% of the salary. However, that amount does not exist in the payroll system. So the percentage of salary in the payroll system is calculated only on the salary. The percentage of the total compensation for Wespath includes that 25% of your salary for parsonage, so your deductions don’t match the amount that Wespath will invoice your church for your 1%. If your church sends exactly what they are deducting from your check, you are now forfeiting 1% from your CRSP defined contribution account. You “missed your match”.

**Example:** Your salary is $45,000 and you have a parsonage.
Your total compensation is $56,250 ($45,000 x 25% = $11,250).
1% of your total compensation is $562.5 (1% x $56250 = $562.5)
You elect to have 1% of your salary withheld ($45,000 x 1% = $450) from the payroll system. This is lower than 1% of your total compensation so you did not meet the amount for matching based on total compensation. You have forfeited 1% from your CRSP plan by not making enough in contributions to the UMPIP.