

## Who is a "Minister" for Tax Purposes?

Having "minister" in someone's title is not enough. The IRS uses the 5 criteria below to determine if one is a minister for tax purposes. Application of these criteria has varied based on various court cases and IRS guidance. Generally, a person would be considered a minister by the IRS if ordained, licensed, or commissioned and the duties for which they were employed are those of a minister.

- **Ordained, Licensed, or Commissioned**
- Administers Sacraments
- Conducts Worship
- Performs services in the "control, conduct, or maintenance of a religious organization"
- Considered to be a spiritual leader by the related religious body

## Is the Minister an Employee or Self-Employed?

**Southern Baptist Ministers generally have a dual tax status:**

1. Employee for Income Taxes
2. Self-Employed for Social Security Taxes

**SOCIAL SECURITY** -- *"The services you perform in the exercise of your ministry are covered by Social Security under the Self-Employment Contributions Act. Therefore, the earnings you receive for performing these services are subject to self-employment tax."*  
...IRS Publication 517

**FEDERAL INCOME TAX** -- *"Common law rules apply in determining if you are an employee or self-employed. Generally, if you perform services subject to the will and control of an employer, both as to what will be done and how it will be done, you are an employee. It does not matter that an employer may allow considerable discretion and freedom of action, as long as the employer has a legal right to control both the method and result of the service."*  
...IRS Publication 517

**"SEVEN-FACTOR TEST** --- In 1994 the US Tax Court applied a "seven factor" test in two rulings regarding the employment status of clergy. In stressing the element of "right to control", the court further stated that "the threshold level of control necessary to find employee status is generally lower when applied to professional services than when applied to non-professional services." This test applies the following seven factors:

1. The degree of control exercised (or right to control) by the employer over the details of the work.
2. Which party invests in the facilities used in the work.
3. The opportunity for the individual to realize a profit or loss.
4. The right of the employer to discharge the individual.
5. Whether the work is part of the employer's regular business.
6. The permanency of the relationship.
7. The relationship the parties believe they are creating.

## Special Tax Provisions Apply to Ministers

1. Housing Allowance Exclusion for state and federal **income tax**.
2. Self-Employed Status for Social Security
3. As an employee for income tax purposes, a minister's taxable income should be reported on a W-2 form. However, wages are exempt from required federal withholding. [IRC 3401(a)(9)] Ministers may participate in voluntary **income tax** withholding.
4. Exemption from Social Security Self-Employment tax **only** under certain limited conditions