

Voluntary Tax Withholding for Ministers

Several key facts to keep in mind . . .

1. Ministers have a “dual tax status”. They are generally an employee for income taxes and self-employed for social security.
2. Ministers, although an employee for income purposes, are exempt from REQUIRED income tax withholding. They may however, do voluntary income tax withholding.

An explanation of Voluntary Tax Withholding for Ministers is best done through the following example:

1. John, a minister, estimates he will owe the following federal taxes this year:

Estimated Federal Income Tax	\$	512
Estimated Self-Employment Social Security Tax	\$	7,600
TOTAL Estimated Federal Taxes	\$	8,112

2. John completes a W-4 form requesting his church withhold \$ 156 per week from his salary. \$ 156 per week (\$ 8,112 for the year) is withheld by the treasurer as “INCOME TAX WITHHOLDING”. John and his treasurer know that he will not owe that much in income taxes. He is simply over-withholding. *(Some people like to over-withhold on their taxes and get a big refund as a way to have “forced” savings.)* The money is reported by the treasurer and paid to the IRS as “INCOME TAX WITHHOLDING”.

3. At year end, John files his tax returns. His actual taxes due:

Actual Federal Income Tax	\$	417
Actual Self-Employment Social Security Tax	\$	7,484
TOTAL Actual Taxes	\$	7,901

4. John’s treasurer sent in \$ 8,112 during the year as “Income Tax” Withholding. John’s actual total federal taxes due are \$ 7,901. Therefore, he gets a refund of \$ 211. When simply looking at the “INCOME TAX” side, it appears John would get a huge refund. Instead, when he files his taxes those funds are credited toward his Self-Employment Social Security Tax.

NOTE: If a minister does not do voluntary income tax withholding, they must send quarterly estimated tax payments to the IRS using IRS Form 1040-ES. Failure to prepay federal taxes either by withholding or through quarterly estimated tax payments can result in substantial penalties and interest.

For those persons who question the validity of doing voluntary income tax withholding, the IRS does recognize this as an option. IRS Publication 517 includes this statement: “If you perform your services as a common-law employee of the church and your salary is not subject to income tax withholding, you can enter into a voluntary withholding agreement with the church to cover any income and SE tax that may be due.”