

Social Security for Ministers

1. NON-Minister church employees are covered under FICA Social Security where employee and employer each pay half of the Social Security and Medicare taxes. 7.65% is withheld from the employee's pay. The employer also pays 7.65%. The 15.3% total is then paid by the employer to the IRS to cover that employee's Social Security and Medicare taxes.
2. All ministers (as defined by the IRS) are self-employed for Social Security. Under the Self-Employment Contribution Act (SECA), the minister pays the full 15.3% for Social Security and Medicare taxes. (12.4% "Old-Age/Survivor Benefit Tax" + "2.9% Medicare Tax" = 15.3% Total Social Security Tax)
3. While the quotable rate for Self-Employment Social Security is 15.3%, most ministers in reality pay a lower effective rate due to two adjustments:
 - a. The amount subject to SECA tax is reduced by 7.65% before computing the 15.3%.
 - b. Income subject to income tax is reduced by an amount equal to $\frac{1}{2}$ the SECA tax.This reduction in income subject to income tax may also carry over to state taxes. A minister's effective rate will vary depending on their personal taxes but many ministers will have an effective social security rate close to 13% after the deductions in income subject to income tax.

4. SOCIAL SECURITY EQUIVALENT

To offset the higher Social Security tax rate paid by ministers, a church may pay ministers a Social Security Equivalent. An amount equal to 7.65% of compensation (salary + housing) is recommended. This equals what a church would pay as employer if a minister could be treated as an employee for Social Security.

The Social Security equivalent amount must be included in the minister's taxable income reported on their W-2 form. It is subject to federal income tax, state income tax and SECA tax for the minister.

5. SECA Tax can be pre-paid by Ministers through **VOLUNTARY INCOME TAX WITHHOLDING**. A minister's income is exempt from required income tax withholding [IRC 3401(a)(9)]. But, as an employee for income tax, a minister may request income tax be withheld from salary as voluntary withholding. This may include added withholding sufficient to cover amounts due for self-employment Social Security. The withholding must be paid and reported to the IRS as "Income Tax Withholding". When the minister files their taxes, rather than receiving a refund, those funds can be credited toward their self-employment Social Security. Without withholding, a minister will generally need to make quarterly estimated payments.
6. Most SBC ministers do NOT qualify to **OPT OUT OF SOCIAL SECURITY**. Newly ordained/licensed ministers may apply for exemption from Social Security on ministerial income if conscientiously opposed to receiving government insurance benefits based on ministerial income. Southern Baptist ministers generally do NOT qualify for this exemption. See the other document on the web site that addresses the issue of ministers opting out of Social Security.
7. Although it may be free of state or federal income tax, minister's **HOUSING IS SUBJECT TO SECA TAX**. This includes the fair rental value of a parsonage, church paid utilities, and housing allowance.
8. **IRA Contributions** are subject to SECA. Minister's contributions to a 403(B) retirement plan are NOT. Traditional IRA contributions may be deductible for income taxes but are NOT deductible for Social Security. Church Retirement Plan contributions by a minister ARE exempted in computing SECA.
9. **DURING RETIREMENT.....**
 - Earned Income during retirement is still subject to Social Security
 - Retirement plan income is not "earned income" for Social Security and therefore not generally subject to SECA for retired ministers.