

Numerous resources are available on how to correctly report compensation to the IRS. Local tax professionals can also provide guidance. An area of frequent questions and an area too often handled incorrectly are W-2 forms for ministers and church employees.

Ministers have unique tax rules that require a completely different approach to their W-2 forms. When a minister's tax forms are completed incorrectly it can often be traced back to their W-2 forms being prepared incorrectly.

The following pages walk through how a W-2 form should be completed for church employees and a sample of a W-2 form as it should be completed for an ordained/licensed minister.



## A "Typical" Church W-2 Form

The IRS has a publication that should be used with general instructions for completing a W-2 form. Unique W-2 Issues that are more relevant for churches and ministers are highlighted in the notes below.

**Following the notes is a sample W-2 Form for a Minister.**

Note: On a W-2 form, do NOT include a "\$" sign or commas. DO include decimal point and cents, even if "0". Example: \$ 1,000 would be reported on the W-2 as 1000.00.

IRS scanning equipment assumes the last two figures of any amount are cents.

**Box 1 – Total Taxable Wages** - Items commonly reported in Box 1 include salary, social security equivalent for ministers, gifts/bonuses paid by the church, non-accountable expense reimbursements, group term life insurance in excess of \$ 50,000, and the value of personal use of a church owned car. Do NOT include any employer provided retirement contributions or minister's housing.

**Box 2 – Total Federal INCOME TAX withheld** - For minister's include voluntary income tax withholding by a minister, including any extra income tax withholding that may later be credited toward self-employment social security when they file their personal tax return.

**For ministers, leave boxes 3, 4, 5 and 6 blank since ministers are self-employed for social security.**

**Box 3 – Social Security Wages** - **For non-ministers** this is often the same as Box 1. If tax deferred retirement plan contributions were made by salary reduction, include that amount in Box 3, but not Box 1. Social Security Wages are subject to a maximum amount that changes each year. (\$ 118,500 in 2015)

**Box 4 – Social Security Withheld** – The amount withheld from non-minister wages. (6.2%)

**Box 5 – Medicare Wages** – Generally the same as box 3, except a dollar maximum does NOT apply.

**Box 6 – Medicare Tax Withheld** – The amount withheld from non-minister wages. (1.45%)

**Box 12** – These items are for information purposes only. Insert the appropriate code and dollar amounts in this box. Use capital letters. Remember to include cents and NO dollar signs or commas. The codes most typically used by churches are as follows:

- C** If the church provided more than \$ 50,000 of term life insurance, enter "C" and the value of the coverage. Use values listed in the IRS W-2 form instructions to determine this amount, not actual costs.
- E** If the employee (including ministers) made tax-deferred salary reduction contributions to a 403(b) retirement plan, enter "E" and that amount. This amount is not included in Box 1. For non-ministers, it is included in Box 3.

*Other box 12 entries may sometimes be needed but are not common to most church employee W-2 forms. The cost of medical coverage under an employer sponsored group health plan can be reported using the code letters "DD" but at this time is NOT required for employers with less than 250 employees.*

**Box 13** – If any contributions were made to an employee's retirement plan, check "Retirement Plan".

**Box 14 – Other Information**- This box is optional. While not required, minister's housing may be reported in this box. Including the housing here can be helpful to a minister's tax preparer when they calculate the minister's self-employment social security. If the housing is not entered here, the housing amount should be provided to the minister in some other written form for use by their tax preparer.

# SAMPLE W-2 FORM FOR A MINISTER

The sample W-2 form below is based on the following "pay package" for the minister. *(Note that no ministry related expenses are listed since these have been paid using an accountable reimbursement plan.)*

Salary	\$ 38,433 (He is contributing \$ 1,200 per year additional to the retirement plan by salary reduction.)
Housing	
Fair Rental Value of Parsonage	11,000
Church Paid Utilities	2,800
Housing Allowance	4,700
Retirement (10% Employer contributions)	4,693
Social Security Equivalent	4,355
GuideStone's Life & Accident Insurance	183 (Life insurance over \$ 50,000 has a value per the IRS of \$ 153.00 per year.)
Medical Insurance	14,832
Disability Insurance	388

This minister is doing voluntary income tax withholding of \$ 140 per week (\$ 7,280 per year). Due to other factors his actual income tax will be very low. Rather than getting the excess withholding back as a refund, it will be credited toward his self-employment social security tax when he files his tax return.

Box 1 Taxable Wages Include::

38,433 salary, less 1200 salary reduction contribution to retirement, plus social security equivalent, plus value of taxable life insurance coverage over \$ 50,000.

22222		Void <input type="checkbox"/>		a Employee's social security number <b>111-22-3333</b>		For Official Use Only ► OMB No. 1545-0008					
b Employer identification number (EIN) <b>61-0000000</b>						1 Wages, tips, other compensation <b>41741.00</b>		2 Federal income tax withheld <b>7280.00</b>			
						3 Social security wages		4 Social security tax withheld			
c Employer's name, address, and ZIP code <b>Third New Harmony Baptist Church Route 20 Smallville, KY 12345</b>										5 Medicare wages and tips	
						7 Social security tips		8 Allocated tips			
d Control number										9	
						e Employee's first name and initial <b>John Q.</b>		Last name <b>Doe</b>		Suff.	
f Employee's address and ZIP code <b>123 Any Boulevard Smallville, KY 12345</b>						13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b <b>E 1200.00</b>			
						14 Other <b>Minister's Housing</b> House Value 11000.00 Utilities 2800.00 Housing Allowance 4700.00		12c			
										12d	
15 State Employer's state ID number <b>KY 11111</b>		16 State wages, tips, etc. <b>41741.00</b>		17 State income tax <b>944.00</b>		18 Local wages, tips, etc. <b>41741.00</b>		19 Local income tax <b>389.18</b>		20 Locality name <b>Jefferson</b>	

Using this W-2 form, this minister will report \$ 41,741 as taxable income. He will add other income related to his work as a minister for honoraria (love gifts) he received for such things as weddings, funerals and revivals. He will also add back to taxable income any of the housing allowance not used for qualified housing expense.

In calculating his self-employment social security tax, in addition to taxable income on the W-2 and honoraria he will add all of the amount's in box 14 for minister's housing.