



Northern Illinois Synod
Evangelical Lutheran Church in America

2024 TREASURER WORKSHOP RESOURCES

Northern Illinois Synod Resources	2
Remittance Form	
Statement of Intent	
2025 Compensation Guidelines	
New Laws – State & Federal	3
ELCA Resources	4
Other Handy Websites/Resources	5
Not-for-profit Segregation of Duties – Three People (AICPA)	6
Not-for-profit Segregation of Duties – Two People (AICPA)	7
Internal Controls (NIS)	8
Being a Public Church (ELCA)	16
Can Our Church Get Political? (Church Tax & Law)	23
Ministers Taxation (CapinCrouse)	27

Disclaimer – The Northern Illinois Synod, ELCA is pleased to provide these resources but is not responsible for congregational financial accounting or records. We are unable to provide legal or tax advice to congregations. Congregations should seek assistance and advice from their local advisors when specific issues arise. This resource is provided to you as a service; it should be used to increase knowledge of accounting principles within your congregation.

Northern Illinois Synod Resources

Remittance Statement

<https://nis.elvanto.net/file/ff62fc41-271d-4c6e-9952-3744d1ffa2f7/>

Commonly used Missionaries & ELCA Fund ID:

Stephen & Bethany Friberg MSG0141

Chandran Paul Martin MSG0721

Daudi & Kellen Msseemaa GCS2058

Michael & Hellen Rios Carrillo-Busbey GMG2004

James & Carol Sack MSG0462

*If you don't see a name on this list, please call the Synod office (309) 794-4004 or email office@nisynod.org.

ELCA Good Gifts: be very specific, these also have codes, for example chicks is WHG0106 and goat is WHG0102, but goat + flock of chicks is WHG0154. A list with the codes is usually contained in the catalog distributed close to Christmas, but the Synod Office also has a list.

Statement of Intent

[Statement of Intent | Northern Illinois Synod \(nisynod.org\)](#)

2025 Compensation Guidelines

[2025 Compensation Guidelines | Northern Illinois Synod](#)

New Laws – State & Federal

[Paid Leave for All Workers Act \(illinois.gov\)](#)

Effective January 1, 2024.

Allows workers to earn a minimum of 40 hours of paid leave from work each year.

Workers earn 1 hour of paid leave for every 40 hours worked.

The Frequently Asked Questions link provides more detailed information.

A video, with PowerPoint presentation, is also available on the website.

[Minimum Wage Law - Fair Labor Standards Division \(illinois.gov\)](#)

\$15/hour beginning January 1, 2025.

[Final Rule: Restoring and Extending Overtime Protections | U.S. Department of Labor \(dol.gov\)](#)

Effective July 1, 2024.

Main change – increases the standard salary level on July 1, 2024, and January 1, 2025.

July 1, 2024 - \$844 per week (equivalent to \$43,888 per year)

January 1, 2025 - \$1,128 per week (equivalent to \$58,656 per year)

What might this mean? An employee who may have been exempt from overtime (met the qualifications for executive, administrative and professional (EAP) employees), may need to have an increase in salary to meet the minimum requirements or may need to move to an hourly rate of pay, subject to overtime.

The Frequently Asked Questions link provides more detailed information.

A video is also available on the website.

ELCA Resources

Financial: <https://elca.org/Resources/Financial#FinanceC>

(Reviewed during presentation – click “Load more” at the bottom of the website screen):

Financial and Accounting Guide

Congregational Audit Guide

Financial Best Practices for Congregations (includes link to IRS Publication 1828 – *Tax Guide for Churches and Religious Organizations*)

Internal Control Best Practices

(Other documents available):

How to complete Pastor’s W2 (includes link to IRS Publication 517 – *Social Security and Other Information for Members of the Clergy and Religious Workers*)

Things to remember about housing allowance

Financial Contingency Plan

Credit Card Best Practices

Cash v. Accrual Methods of Accounting

Council Officers Job Descriptions

Human Resources for Congregations series

Writing Minutes Like a Pro

Identity Theft

Data Security

Legal: <https://resources.elca.org/?categories=legal>

(Reviewed during presentation - click “Load more” at the bottom of the website screen):

Financial Records Management

Records Retention Link <https://resources.elca.org/office-of-the-secretary/congregation-records-retention-schedule/>

Taxation on Rental Property

Political Activity and Tax Status

Independent Contractor vs Employee

(Others documents available):

Guidance for Recording and Live Streaming

Copyright Issues – Keep It Legal

Legal Checklist for Congregations

Tax Information for Congregations

Tax Status

Good Samaritan Fund and Helping Hands Fund

Employment Laws Affecting Congregations

Security Procedures in the Workplace

Information on Hiring Employees

Handling Terminations

Employment Posters on Rights and Obligations

Sexual Misconduct (numerous resources)

Sample policies and agreements

Other Handy Websites/Resources

CapinCrouse Nonprofit Resources - <https://capincrouse.com/resources-main/>

Church Law & Tax - <https://www.churchlawandtax.com/>

Resourceful Servants (ELCA) - <https://resourcefuleservants.org>

Segregation of duties – Three people

Accounting Staff

- Write checks
- Reconcile bank statement
- Record credit/debits
- Reconcile petty cash
- Distribute payroll



Executive Director

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Complete deposit slips
- Perform interbank transfers
- Perform analytical procedures
- Review bank reconciliation
- Review wire/ACH transaction
- Review account activity

Accountant / other*



- Approve payroll
- Process vendor invoices
- Mail checks
- Perform analytical procedures
- Approve invoices for payment
- Disburse petty cash
- Open mail and log cash
- Receive bank statements

**Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*

Segregation of duties – Two people

Accountant or other professional staff*

- Mail checks
- Write checks
- Reconcile bank statement
- Record credit/debits
- Approve payroll
- Disburse petty cash
- Authorize purchase orders
- Authorize check requests
- Authorize invoices for payment



Executive Director

- Receive and open bank statements
- Sign checks
- Make deposits
- Perform interbank transfers
- Distribute pay checks
- Review petty cash
- Review bank reconciliations
- Approve vendor invoices
- Perform analytical procedures
- Sign important contracts
- Make compensation adjustments
- Discuss matters with board or audit committee
- Review wire/ACH transactions
- Review account activity

**Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*

Internal Controls

What is an Internal Control Structure?

A process,

- ▶ including policies and procedures,
- ▶ put in place by management to achieve
 - **efficiency** of operations,
 - **reliability** of financial reporting, and
 - **compliance** with laws,
 - and **safeguarding** of assets.

Process implies “action” – not just written procedures, policies, manuals, etc.

➔ ***Auditors cannot be part of the process!***

Internal Controls

Why are Internal Controls so important?

- Safeguard assets
- Reliable board & congregation reporting and budgeting
- Reduce financial risks
- Promote confidentiality of donation
- Visibility – “transparency”
- Good Stewardship

Internal Controls

The elements of internal control

- **Environment** – “tone at the top”
 - “We intend to do what is right, not only in the Lord’s sight, but also in the sight of others.” (2 Corinthians 8:21)
- **Risk assessment** – what could go wrong
- **Activities** – policies and procedures
- **Information & communication** – board reporting, IT applications
- **Monitoring** – evaluation of the process
 - “Give me an accounting of your management.” (Luke 16:2)

Internal Controls

Control Activities include...

1. Approvals
2. Authorizations
3. Verifications
4. Reconciliations
5. Security/safeguards
6. Segregation of duties
7. And so on...

Internal Controls

Approvals, Authorization, Verification

- Review supporting documentation, question unusual items, justify transaction

Reconciliation s

- Differences should be investigated, explained, corrected
- Document review and approval

Segregation of duties

- A single person should not have the ability to authorize, record, and maintain custody of the assets!

Internal Controls

DOCUMENT,
DOCUMENT,
DOCUMENT!

Did I mention you should document your control activities?

Internal Controls

Internal control issues expose your church to the potential for fraud...



Internal Controls

Internal Control issues expose your church to the potential for fraud...



BEING A PUBLIC CHURCH

Guidance for churches and clergy participating in the electoral process



Evangelical Lutheran Church in America
God's work. Our hands.

Lutherans understand that governments are a means through which God can work to preserve creation and build a more peaceful and just society. As a public church, we have a responsibility to address issues that affect our neighbors in communities throughout the world. Through advocacy efforts, ELCA members and other Christians can work through governmental channels on behalf of biblical values. Participating in the electoral process is one way in which ELCA members live out the public witness of advocacy.

An important part of faithful civic engagement is abiding by the law: any participation by congregations in activities related to the electoral process must be strictly nonpartisan and abide by IRS guidelines. Congregations and clergy must ensure that activities related to the electoral process are transparent, nonpartisan and legal.

Disclaimer

The information provided is accurate to the best knowledge of the ELCA Washington Office, and this information is believed to be current and nonpartisan. No resources can substitute for checking with the IRS, federal and state agencies administering election laws, and an attorney regarding the extent to which a congregation and/or its religious leaders can be involved in specific political activities.

IRS Guidelines for Congregations with 501(c)(3) Tax-Exempt Status

Why is it important to understand my tax status when planning political activity?

ELCA clergy, congregations, synodical offices, seminaries and college or university campus ministry groups can, and should, play a longer-term and vital role in Lutheran civic engagement, and in election years, by encouraging communities to vote.

However, before you begin, it is also important to know which political activities are permissible and which are unacceptable under the auspices of your 501(c)(3) tax status. Non-compliance with IRS Tax Code 501(c)(3) can mean a loss of your institution's tax exempt status.

Scroll down for more information on permissible and non-permissible activities in an election season.

What constitutes nonpartisan electoral activity?

According to the IRS, “all section 501(c)(3) organizations are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office.” IRS language can seem insurmountable and overwhelming, but this guide attempts to break down legal text into digestible bites, and opens up many opportunities for things that you CAN do, as long as they’re nonpartisan.

Focus on activities that are intended to encourage people to participate in the electoral process. These can include, but are not limited to, nonpartisan voter registration and Get-Out-The-Vote campaigns, sponsoring candidate forums, and becoming a polling location. Remember, voter education or registration activities conducted by the church are not permissible if they show evidence of a bias that:

- (a) Would favor one candidate over another;
- (b) Oppose a candidate in some manner; or
- (c) Have the perceived effect of favoring a candidate or group of candidates.

Participating in the electoral process is just one way to speak out for peacemaking, hospitality to strangers, care for creation, and concern for people living in poverty and struggling with hunger and disease. Year-round, thousands of ELCA members advocate for public policy that will help their neighbors near and far—to join this growing network of Lutherans now, sign up for the ELCA e-Advocacy Network at www.ELCA.org/advocacy.

Before beginning any political activity, it is extremely important to understand what parameters exist under IRS guidelines.

No resources can substitute for checking with the IRS, federal and state agencies administering election laws, and your attorney regarding the extent to which a church and/or its religious leaders can be involved in specific political activities.

Examples of activities that are permissible:

1. Distributing nonpartisan voter guides encouraging voting, deepening voter education through issue discussions, and inspiring other meaningful opportunities for civic participation.
2. Facilitating debates, hosting screenings or discussions of publicly-broadcasted debates.
3. Facilitating equal-opportunity speeches or bipartisan debates. This can be facilitated by representatives from campus groups with partisan affiliation. For example, have the president/representative of a campus' student Republican organization and the president/representative from a campus' student Democratic organization give speeches to raise voter awareness on relevant issues.
4. Canvassing neighborhoods for participation in the election
5. Organizing Get-Out-The-Vote campaigns.
6. Organizing voter registration drives.
7. Organizing letters to local newspapers on the importance of civic engagement.

Examples of activities that need to be avoided by churches and church leaders acting on behalf of the church:

1. Contributing to candidates or campaigns specifically geared towards an individual candidate or political party. In other words, in an official capacity as a leader or on behalf of the church, you may not raise funds or give money to candidates or political parties.
2. Allowing candidates to raise funds for their campaign on your church's property, Web site, newsletter, or other publications.
3. Any form of direct endorsement or indirect endorsement of a candidate or political party. In other words, keep your activities unbiased and nonpartisan.
4. Explicitly or implicitly endorsing a candidate, potential candidate, political party, third-party movement or candidate draft effort.
5. Permitting political signs favoring a candidate or party to be posted on church property.
6. Focusing voter registration or other election-related activities in specific geographic areas because they are influential, crucial or partisan districts or wards. (However, your congregation may target a geographic area because it is convenient to your location, or because many members of your congregation live there, as long as it is not intended to incite unfair electoral participation.)
7. Coordinating voter registration, Get-Out-The-Vote campaigns, or other election-related activities **with** a candidate or political party. Do not allow political parties to suggest the timing, messages, audience or location of any of your political activities.
8. Organizing groups to work for a candidate or party.
9. Asking a candidate to pledge support for a religious denomination's position on an issue, publicizing a candidate's position on an issue, or publicizing a candidate's independent decision to support or oppose the denomination's position.

10. Providing anything of value, including space, equipment, mailing lists or staff time, without charging full market value and allowing equal access to opposition candidates. If you are making your space available to any candidate, it's a good idea to send a courtesy letter offering the space to all other candidates. It is also a good idea, if you are offering your space for use by political candidates, that it also be available to the general public.

11. Providing space for the distribution of partisan materials, such as candidate flyers, on church property.

The following chart is a visualization of what activities are acceptable by either individuals, in several capacities, or by churches in terms of the acceptability of their election-related activities.

Election Activities	Churches: as institutional bodies ¹	Clergy: as representatives of a congregation	Clergy: as individuals ²	Church members as individuals ³
Discuss the positions of all candidates on public issues	Yes ⁴	Yes	Yes	Yes
Endorse political candidates	No	No	Yes	Yes
Contribute to political candidates	No	No	Yes	Yes
Commit to in-kind expenditures, meaning gifts or volunteer hours, in support of or against political candidates	No	No	Yes	Yes
Contribute to political action committees	No	No	Yes	Yes
Have political candidates speak at a church meeting or service	Yes ⁵	Yes	N/A	N/A
Pay expenses for candidates for appearances at church meetings or services	No	No	N/A	N/A
Distribute at church: - Nonpartisan	Yes ⁶	Yes	Yes	Yes

candidate surveys - Voting records of all candidates running for office - Candidate's political statements - Nonpartisan voter education guides ⁸	Yes No Yes ⁹	Yes No Yes ⁹	Yes Yes ⁷ Yes ⁹	Yes Yes ⁷ Yes ⁹
Hold voter registration drives	Yes	Yes	Yes	Yes
Hold nonpartisan Get-Out-The-Vote drives	Yes	Yes	Yes	Yes

¹ Please review the definition of “Church” in this context as is defined by the IRS:

Church: In terms of the Internal Revenue Service’s (IRS) Code, the term “church” applies to all houses of worship, not just those faiths that refer to their houses of worship as “churches.” There are several characteristics used to identify a “church” for the purposes of the IRS. They include:

- distinct legal existence
- recognized creed and form of worship
- definite and distinct ecclesiastical government
- formal code of doctrine and discipline
- distinct religious history
- membership not associated with any other church or denomination
- organization of ordained clergy
- ordained clergy selected after completing prescribed courses of study
- literature of its own
- established places of worship
- regular congregations
- regular religious services
- Sunday schools for the religious instruction of the young
- schools for the preparation of its clergy.

(In other words, if you are in any way affiliated with a faith-based institution, such as a Lutheran university, you and your organization are subject to this classification).

² This category is intended to identify and encourage pastors and clergy members to participate in election-related activities. As affirmed by the IRS, clergy members may use their title as Reverend as a professional title. However, it is not permissible to affiliate one’s self with a specific congregation or denomination when engaging in partisan political activities.

³ This category is intended to demonstrate what activities congregants can engage in when it comes to their political participation and activities. However, it is extremely important to note that it is not permissible to affiliate one’s self directly with a congregation or denomination, or attempt to speak on behalf of either of the aforementioned entities. To do so would be in violation with Tax Code 501(c)(3).

⁴ A church is well within its rights if it chooses to hold an educational session in which opposing positions on political issues are discussed. It is important, however, to remember that all political opinions must be expressed equally, within reason.

5 A political candidate may speak at your church. The appearance of candidates before and after church services is limited by law. There must be equal representation from any other candidates for the same office allotted. If, for any reason, you are unable to get representation from a majority of the candidates for that particular office, you must cancel the event. All events, however informal, **MUST** be nonpartisan, and the religious institutions may not favor or denounce any candidate or party under any circumstance. **NO** campaigning or fundraising may take place during the event.

6 A church may publish and distribute the results of surveys of candidates on public issues. Said surveys must be nonpartisan, offering equal opportunity for all potential candidates running for office. The results **MUST** be in a “Yes” or “No” format and should not suggest or specify a desired response or outcome. Be careful not to use words that would endorse or detract support for any individual candidate, and consult a lawyer to clarify that your actions are both directly and indirectly nonpartisan.

7 While this is technically permitted, you are urged to use extreme caution. The church should take pains to make it clear that the distribution of candidate materials is neither sanctioned nor endorsed by the congregation.

8 Please note difference between “nonpartisan” and “bipartisan”:

Nonpartisan: Unrelated to, or not supported by, a particular political party. For instance, a “nonpartisan” campaign does not endorse a specific political party or give allegiance to an individual political candidate.

Bipartisan: Relating to, or supported by two groups, especially by two political parties. In an American context, this means support from both the Democrat and Republican political parties.

9 Voter guides can be a great tool to keep your congregation informed on the ongoing issues-based discussions held by political candidates, but it is our recommendation that if you are planning to create a guide, you consult legal counsel before beginning distribution.

A stylized white silhouette of a church steeple with a cross on top, set against a background of red and blue stars. The steeple has two arched windows and a circular window on the right side. The background is split into red and blue sections, with white stars scattered throughout.

Can Our Church Get Political?

Can Our Church Get Political?

TEN EXAMPLES TO HELP CHURCH LEADERS DECIDE

From the editors of Church Law & Tax

Election years frequently trigger a common question among church leaders and pastors: What types of political activities and speech are allowed under section 501(c)(3) of the tax code?

While political activities and speech by churches and pastors are protected by the US Constitution's First Amendment, the Internal Revenue Code contains specific language that either prohibits or limits certain activities conducted by tax-exempt entities. Violations can lead to excise taxes, the revocation of federal tax exemption, or both. While few public examples exist of the actual enforcement of these rules over the years by the Internal Revenue Service (IRS), churches and church leaders still should understand the prohibitions and limitations, including any potential tax consequences triggered by them.

This chart provides ten examples of political activities churches might wish to do and briefly details the related IRS guidance, including the potential effects of those activities on a church's tax-exempt status. The goal is to provide a quick reference for church leaders that helps them make informed decisions. (Want the full list of [27 examples](#)? It's available to [Church Law & Tax members](#).)

To go deeper on these issues, don't miss "[The Tax Implications of Churches and Political Involvement](#)," by attorney, CPA, and senior editor Richard R. Hammar, and "[Churches, Politics, and Constitutional Protections](#)," by attorney Erik Stanley on ChurchLawAndTax.com's [Recommended Reading](#) page. Also check out Hammar's annual [Church & Clergy Tax Guide](#).

POLITICAL CAMPAIGN ACTIVITIES BY CHURCHES

AN ANALYSIS OF SELECTED ACTIVITIES

CAMPAIGN ACTIVITY	IMPACT ON TAX-EXEMPT STATUS	BASIS
A church makes contributions to a candidate's campaign fund.	Prohibited	<i>IRS Tax Guide for Churches and Religious Organizations</i>
A church makes public statements of position (verbal and written) in favor of, or in opposition to, candidates for office—in official church publications and at official church functions.	Prohibited	<i>IRS Tax Guide for Churches and Religious Organizations</i>
A church provides a nonpartisan forum for all candidates to address the church.	Permitted	<i>IRS Tax Guide for Churches and Religious Organizations</i>
A church invites all candidates for a political office to address the congregation and informs the congregation before each candidate's speech that the views expressed are those of the candidate and not the church and that the church does not endorse any candidate.	Permitted	Revenue Ruling 74-574; <i>IRS Tax Guide for Churches and Religious Organizations</i>
A church invites only one candidate in a political campaign to address the congregation.	Prohibited	Revenue Ruling 2007-41
The church provides an opportunity for a candidate to speak in a noncandidate capacity (for example, as a member of the church, public figure, or expert in a nonpolitical field) without providing equal access to all political candidates for the same office. The church ensures that the candidate speaks in a noncandidate capacity; no reference is made to the person's candidacy; the church mentions the capacity in which the candidate is appearing (without mentioning the person's political candidacy); and no campaign activity occurs.	Permitted	<i>IRS Tax Guide for Churches and Religious Organizations</i>

POLITICAL CAMPAIGN ACTIVITIES BY CHURCHES

AN ANALYSIS OF SELECTED ACTIVITIES

CAMPAIGN ACTIVITY	IMPACT ON TAX-EXEMPT STATUS	BASIS
A church distributes a compilation of voting records of all members of Congress on major legislative issues involving a wide range of subjects; the publication contains no editorial opinion, and its contents and structure do not imply approval or disapproval of any members or their voting records.	Permitted	Revenue Ruling 78-248
A church distributes a voter guide containing questions demonstrating a bias on certain issues.	Prohibited	Revenue Ruling 78-248
A church endorses a candidate (by any variety of ways, including verbal or written statements, references to the candidate's political party, references to the candidate's distinctive platform or biography, and/or showing the candidate's picture).	Prohibited	Int. Rev. News Release IR-96-23
A church's pastor delivers a sermon series addressing what the Bible says about abortion, criminal justice reform, sexual orientation and gender identity, and other topics.	Permitted	First Amendment of the US Constitution

For a more detailed discussion about political activities and the church, visit ChurchLawAndTax.com's [Recommended Reading](#) page as well as Richard R. Hammar's annual [Church & Clergy Tax Guide](#).

Common Questions About Minister's Taxation

By Sara Tibbott, Tax Manager

Minister's taxation can be a complicated task in our current U.S. tax reporting system. While no one ever really looks forward to doing their taxes when April rolls around, ministers face an extra layer of complexity due to unique tax compliance rules.

Here are answers to some common questions about minister's taxation to help bring clarity and make this filing season a more efficient and enjoyable one.

Who does the IRS consider to be a minister?

Before we get to the unique aspects of ministerial taxation, let's first define a minister for tax purposes. The IRS has developed a definition of a minister for this purpose that can be found in [IRS Publication 517](#), *Social Security and Other Information for Members of the Clergy and Religious Workers*.

As a threshold matter, an individual seeking classification as a minister must be "duly ordained, commissioned or licensed by a religious body constituting a church or church denomination."

In addition, a minister should have the authority to:

- Conduct religious worship
- Perform sacerdotal functions
- Administer ordinances or sacraments according to the prescribed tenets and practices of a church or denomination
- Control, conduct, and maintain religious organizations that are under the authority of a religious body that is a church or denomination

Courts have also considered whether an individual is viewed as a spiritual leader by a church body.

Why is minister's taxation unique?

First, ministers are deemed to be self-employed for Social Security tax and Medicare tax purposes, while being employees for all other purposes. Second, ministers' wages are not subject to income tax or payroll tax withholding. Third, ministers are eligible for a housing allowance, which is not subject to income tax.

What does it mean to say that a minister is self-employed for Social Security tax and Medicare tax purposes?

There are two different systems under which individuals may be taxed for Social Security and Medicare purposes: (i) the Federal Insurance Contributions Act (FICA) and Medicare, and (ii) the Self-Employment Contributions Act (SECA). Regular employees, i.e., non-ministerial employees, fall under the FICA system. Ministers, however, fall under the SECA system, the same as other self-employed individuals.

Individuals subject to SECA tax pay tax on their income at a rate of 15.3%. This amount is equivalent to the combined employer and employee portions of the FICA and Medicare tax. It is reported on Schedule SE when the minister files his Form 1040 at the end of the year.

If an individual is a minister under the definition above, then the individual is covered under SECA rather than FICA. This is not a choice, but rather a requirement of the Tax Code and must be followed in its entirety.

Are ministers' wages subject to income tax or payroll tax withholding?

Because a minister is deemed to be self-employed, he is responsible for paying quarterly estimated tax payments. As a result, a church is not required to make this income or SECA tax withholding. However, a minister can request that the church withhold on his behalf instead of paying estimated tax payments. This is done by making a voluntary withholding request on IRS Form W-4, using line (c) at step 4.

What is the minister's housing allowance?

The minister's housing allowance (MHA) is a component part of a minister's compensation package, which is not subject to income tax under Internal Revenue Code (IRC) section 107. Note, however, that the MHA is subject to SECA tax for ministers who have not opted out of Social Security.

Only those who are ministers of the gospel are eligible to receive an MHA.

Who should designate the MHA?

The designation should be done in an official action of the employing church. Often this is done through resolution or official action of the governing board or at a congregational meeting.

When should the MHA be designated?

The MHA must be designated before any payments are made to the minister. If the church does not designate the MHA before it is paid, then the full amount of the payment must be included in the minister's income that is subject to both income tax and self-employment tax. A late designation (i.e., made after the beginning of the year) is only applicable to payments made after adoption. The same rule applies to mid-year changes to the MHA.

How is the amount of the MHA that is excludable from income tax determined?

The portion of the MHA that is excludable from the minister's taxable income is the **lesser** of:

- The official amount designated as an MHA by official action of the church
- The fair rental value of the home, including furnishings, utilities, garage, etc.
- Actual housing expenses for the current year (including mortgage payment, property taxes, utilities, and furnishings)

The fair rental value of the home is generally determined by consulting a local real estate agent periodically.

The excess of the designated amount over the smaller of the fair rental value or actual housing expenses must be reported as other taxable income on Form 1040.

What is the self-employment tax treatment of the MHA?

The full amount of the designated MHA is subject to self-employment tax.

Should ministers receive a Form W-2 or Form 1099-NEC?

Even though a minister is deemed to be self-employed for Social Security tax purposes, in almost all cases a minister is considered an employee and should receive a Form W-2. This is because in the majority of cases, a church retains the legal right to control what a minister does and how he does it. Further, this is generally a desirable status because it has a direct impact on the

¹ Michael Martin, *Ministers Tax and Financial Guide*, (Winchester: Evangelical Council for Financial Accountability, 2021), pg.17.

tax-free treatment of many fringe benefits.¹ Therefore, it is important that the church document the minister's employee status and treat him as an employee.

A Form 1099-NEC is the correct form to use when a minister is an independent contractor and not an employee.

What should a minister's Form W-2 look like?

A minister's salary, exclusive of the MHA, should appear in Form W-2, Box 1. Any amounts voluntarily withheld by the church at the minister's request should appear in Box 2. As mentioned above, a minister falls under the SECA system, which means that the church does not withhold any Medicare or Social Security tax. Therefore, Form W-2, Boxes 3 through 6 should be left blank. If you receive a Form W-2 as a minister and there are amounts in these boxes, your payroll has likely not been handled correctly as described in this article.

The amount designated as a housing allowance is often included in Form W-2, Box 14 for information purposes only, as shown below. This is not included in Box 1 as it is not subject to income tax.

W-2 Wage and Tax Statement
2020
Department of the Treasury - Internal Revenue Service

Copy B - To be filed with Employer's FEDERAL Tax Return.
This document is not valid for electronic filing.

Can ministers opt out of self-employment tax?

Ministers can request an exemption from self-employment tax by filing [Form 4361](#), *Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners*.² This exemption is available to ministers who can certify that they are conscientiously opposed to, or because their religious principles are opposed to, the acceptance of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care (i.e.,

² IRS Publication 517, pg. 6.

Social Security or Medicare). This exemption only applies to income subject to self-employment tax.

It is important to note that this exemption is irrevocable and only applies to ministerial wages. Other wages received for non-ministerial services are still subject to the Medicare and Social Security tax. Requesting this exemption should not be done hastily or without making alternative plans for income during retirement.

Conclusion

Being a minister of the gospel is an amazing God-given responsibility, and, sadly, ministers can be easily weighed down by numerous non-ministerial tasks, including tax compliance. Hopefully, this brief overview has helped to bring clarity to some of the issues regarding ministerial taxation to assist with this tax season as well as future tax planning.

About the Author

Sara Tibbott, Tax Manager
stibbott@capincrouse.com
o 505.50.CAPIN ext. 2202

Sara joined CapinCrouse in 2015 and is a manager serving clients in the firm's North region. She has more than 10 years of experience providing tax compliance to high net worth individuals, corporations, and partnerships as well as review and compilation work for various companies.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BOO Alliance USA.



* Used with permission from Rob Faulk, Partner, Church and Denomination Services Director, CapinCrouse.