



# *Clergy Compensation*

*Archdiocese of Baltimore  
Parish/School Management Training  
April/May 2008*



1. Tax Treatment
2. Taxable Income
3. Administrative Procedures

## *Sources:*

1. *2007 Income Taxes for Priests Only*, Wayne Martin Lenell, CPA, Ph.D., 21<sup>st</sup> Edition, Volume 19, Number 1
2. *Archdiocese of Baltimore Compensation Guidelines FY09*

# *Unique Tax Status of Priests*



1. Priests are self-employed for Social Security Tax purposes.
2. Priests may receive tax free housing.
3. Priests are exempt from payroll withholding
4. Priests receiving a W-2 may request payroll tax withholding.
5. Priests receive various allowances.
6. Most priests are considered dual status taxpayers.

# *Self-Employed for Social Security*



1. Priests within the Archdiocese of Baltimore may not opt of Social Security.
2. Parishes can not withhold social security tax from a priests salary and match it as they do for lay employees.
3. Parishes who have withheld social security and the priests will have to file amended returns.
4. Parishes within the Archdiocese of Baltimore gross up priests salaries to cover the parish's share of the social security tax.



1. Housing is a tax free benefit for income tax purposes but not for social security tax purposes.
2. Tax-free housing usually takes the form of a rectory. The rectory may also include offices and common living spaces that make determining the value of the housing difficult.
3. Parishes may have a separate structure specifically for priests' residence. If there is one priest then the value of housing is the fair market rental value. If more than one priest is in residence the value of the living quarters is to be allocated.
4. Some priests may receive a cash allowance, often called a housing allowance (see page 11 for further discussion).



1. Priests are exempt from income tax withholding but they are not exempt from the *pay as you go* system. If a priest owes more than \$1,000 in taxes for a year they must make quarterly estimated payments.
2. Even though priests are exempt parishes are not exempt from tax withholding requirements for lay employees.
3. Priests who receive Form W-2 to report earnings may at their option request payroll tax withholding. This withholding then relieves a priest from making quarterly estimated tax payments.
  - Priests should have additional tax withheld to not only cover income tax but also to offset their self-employment social security tax liability.



1. Self-employed for Social Security but employees for income tax purposes.
2. The form given to report a priest's compensation, either form 1099 or W-2 affects:
  - a) Manner in which a priest files his personal tax return
  - b) The amount of tax he pays
  - c) Quarterly and annual reporting to the IRS by the parish
  - d) The chances that a priest will be audited (chances of an audit are increased when a form 1099 – MISC. is used.)
3. According to Internal Revenue Code employees are:
  - a) Officers paid by the corporation – AOB pastors are the secretary/treasurer of the parish corporation and receive a salary based on the approved AOB scale.



- b) Individuals who, under common law are subject to the will control of the employer. The IRS uses twenty factors to indicate whether sufficient control is present.
4. If a priest receives benefits specifically allowed as tax-free benefits to employees, either:
    - a) He is an employee and the benefits are tax-free or he is self-employed and the benefits are taxable.
  5. Priests employed full-time for another entity but concurrently providing services on an independent basis, i.e. extra clergy are properly classified as independent contractors and should receive a 1099-MISC if they were paid over \$600 in a calendar year.



# *Clergy Taxable Income*



## For Federal Income Tax and Social Security Tax

1. Salary and salary supplements (parish SSI gross up)
2. Allowances (paid w/o required documentation)
3. Stole Fees and honoraria
4. Mass Stipends and fees
5. Professional Fees
6. Personal use of parish-owned vehicles

## For Social Security but not Federal Income Tax:

1. Value of Room and Board

## For Federal Income Tax but not Social Security:

1. Pension Benefits
2. Investment and passive income

# Salary Calculation ~ Example



**Archdiocese of Baltimore**  
**Parish: \_\_\_\_\_**  
**Clergy Salary Calculation**

Name: \_\_\_\_\_

<b>FICA Contribution Calc.</b>		<b>Payroll Gross Salary</b>	
A. Salary per Scale	\$	24,744	Salary per Scale
B. Mass Stipend (if elected)		2,000	Mass Stipend (if elected)
C. Car Insurance		974	Car Insurance
Taxable Housing		5,000	D. PPE (if elected as salary)
Gross		32,718	Gross
Divided by .9235		35,428	Fica Contribution
Less Gross		(32,718)	Car Ins (After Tax Deduct.)
Fica Contribution	\$	<b>2,710</b>	403(b) Deduction
			<b>32,254</b>

- A. Salary is based on Archdiocesan Salary Scale
- B. Priests may elect to receive \$2,000 in lieu of mass stipends.
- C. This is the taxable value of the car insurance paid for by the parish.
- D. Priests may elect to include all or a portion of the Professional Exp. Allowance in their salary. The amount included in salary is taxable however should not be included in the FICA contribution calculation.



Common allowances include:

1. Car Allowance
2. Clothing Allowance
3. Food Allowance
4. Education Allowance

If a parish pays an allowance and requires no proof that it was actually spent as intended the allowance becomes taxable salary and should be included as additional salary on Form W-2 in Box 1.



1. Represent amounts given to a priest for the performance of a sacerdotal function or other services performed in his ministry.  
Typical examples include:
  - Weddings
  - Funerals
  - Baptisms
  - Speaking engagements
2. The IRS doesn't consider these tax free gifts because the payment was motivated by the rendering of a service.
3. If the priest retains stole fees it is taxable income for both federal income tax and social security tax.
4. If the parish receives stole fees and then pays the priest, the parish should include the fees as additional salary in box 1 on form W-2.



1. Mass Stipend – the amount offered by a parishioner for a Mass to be said for the repose of the soul of a departed loved one or other intention of the donor. This includes:
  - a) Daily
  - b) Weekend
  - c) Mother's Day
  - d) Father's Day
  - e) All Souls Day
2. This sacerdotal practice is not dependent upon payment.
3. If payment is received by a priest it is the result of rendering a service, therefore it is taxable income for both federal income tax and social security tax purposes.



4. If the parish priest elects the \$2000 in lieu of the actual mass stipends:
  - The \$2000 is to be included as salary in Box 1 on Form W-2
5. If a parish priest takes the actual mass stipends:
  - The parish should add the actual amounts to the priests taxable income as salary in Box 1 on Form W-2.
6. Mass Fee— amount paid to a priest by a parish for celebrating mass, hearing confessions or other weekend services, i.e. visiting clergy.
  - Mass Fee Taxable income for both Federal Inc. Tax & Social Security
  - Priests considered employees should have earnings reported in Box 1 of Form W-2. Visiting clergy fees should be included on form 1099 if over \$600 in a calendar year. Use account 5320 – extra clergy fees paid to record expense.



1. Professional Expense allowance for FY09 is \$8,697
2. Any portion of this amount may be taken into a priests salary and receipts don't have to be provided. This election must be done before the start of the fiscal year & can not be altered during the fiscal year.
3. The portion taken directly into salary is taxable income for both Federal Income Tax and Social Security Tax purposes.
4. Amounts not taken into income must be supported by receipts and/or a mileage log. Any amounts not supported by receipts and/or used by the end of the fiscal year are forfeited.



5. Allowable professional expenses include:
  - a) Miles
  - b) Parking Fees, tolls
  - c) Travel Expenses
  - d) Vestments
  - e) Professional Dues
  - f) Business Supplies
  - g) Meals & Entertainment
  - h) Retreat Expenses
  
6. Parishes should not be providing priests with a gas card, which is fully paid for by the parish and also reimbursing a priest for mileage.





7. Allowable business Expenses include:
  - a) Business Miles
  - b) Parking, tolls, etc
  - c) Other Business Travel Expenses
  - d) Meals & Entertainment
  - e) Business Supplies
  
8. Priests should make a distinction between professional expenses and business expenses. Examples include:
  - Professional – travel expenses related to a retreat, a baptism for an acquaintance at a different parish or a Priests' Council meeting. These are reimbursed out of the priest's personal professional expenses.



- Business – Expenses for travel to a hospital, a home visit or any normal parish business activity. These are reimbursed by the parish out of the parish's operating budget from the appropriate expense accounts.



1. If a priest uses a parish owned vehicle only for business purposes there is no taxable fringe benefit.
2. Once the vehicle is used for personal reasons it becomes a taxable fringe benefit and the priest must pay tax for both federal income and social security on the value of the personal use, based on one of four ways:
  - a) The General Rule
  - b) The \$3 per Day Method
  - c) The Cents per Mile Method
  - d) The Automobile Lease Valuation Rule



1. The housing portion is income tax-free no matter where the priest lives: on-site rectory, off campus parish owned residence or his own personal residence.
  
2. For Board to be tax-free:
  - a) The meals must be consumed on the premises of the parish
  - b) The meals are for the convenience of the parish
  - c) The meals are required as part of the priests working conditions

If any of the above are not met then the meals/food are taxable Earnings.



3. The Archdiocese of Baltimore housing policy states that every priest is entitled to adequate living arrangements normally provided by the parish in a rectory or parish house. The priest should have adequate personal quarters that are properly furnished and maintained regarding cleanliness and operation.
  
4. For good reasons, a priest may request permission for an alternate living situation.



1. The amounts a parish reports on a priest's annual Form W-2 correspond to the amounts a parish reports on the quarterly form 941.
2. The IRS compares the amounts a parish reports on the 941 forms with the amounts reported on the W-2 forms. They are not timely, it may be 3 years before a parish hears from the IRS regarding a difference.
3. Prepare the W-2s before mailing the 4<sup>th</sup> quarter 941.
4. 941 Details:
  - a) 941 Box 2 = W-2 Box 1
  - b) 941 Box 3 = W-2 Box 2
  - c) 941 Box 5a = W-2 Box 3
  - d) 941 Box 5c = W-2 Box 5



- Box 1: Enter total taxable earnings paid to priest after subtracting contributions to his 403(b)
- Box 2: If priest requests voluntary withholding, enter total Federal Tax withheld
- Boxes 3 – 8: Blank. Priests are self-employed for Social Security.
- Boxes 9 – 11: Generally Blank
- Box 12a-d: Use Code “E” and enter amount of 403(b) salary reduction. Also use if reimbursements are paid at higher than IRS rates. Use Code “L” & enter amount paid up to IRS & include excess of rates paid in Box 1.
- Box 13: Check Box if priest is covered under a pension plan.
- Box 14: Generally Blank. The IRS allows parishes to list the value of housing or cash housing allowance in this box, but it is not required.
- Boxes 15 – 20: If State or City has tax, enter taxes withheld, Box 1 wages



**Archdiocese of Baltimore**  
**Parish: \_\_\_\_\_**  
**W-2 Worksheet**

Name: \_\_\_\_\_

Regular Salary	\$ 24,744
Additional salary Payments:	
Social Security Contribution	2,710
Value of Car Insurance	974
Mass Stipends and Fees	2,000
Stole Fees	1,500
Undocumented Business/Professional Expenses	4,000
Other Cash Allowances	-
Meals not on premises/cash food allowances	5,200
Personal use of parish car	-
	<hr/>
	\$ 41,128
Less: Tax Sheltered Annuity	(1,200)
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Total Form W-2, Box 1 Salary	\$ 39,928