Tax Guide for Ministers

For 2018 Returns

Prepared by
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Presented by
Board University of The Board of Pensions of the Presbyterian Church (U.S.A.)

THE BOARD OF PENSIONS
OF THE PRESBYTERIAN CHURCH (U.S.A.)

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OF THE PRESBYTERIAN CHURCH (U.S.A.)

January 2019

Dear Minister Member,

As in years past, the Board of Pensions is providing the Tax Guide for Ministers. Richard R. Hammar, an attorney and CPA who focuses on legal and tax issues for clergy and congregations, helped us update it for the 2018 tax year.

In the section Tax Highlights for 2018, Mr. Hammar looks at implications of the 2017 Tax Cuts and Jobs Act. I urge you to read this carefully. He also provides an overview of the legal challenge to the housing allowance in the guide's opening. This benefit remains in place for tax year 2018, but its future is uncertain.

Mr. Hammar helped update Federal Reporting Requirements for Churches as well. The Board provides this publication for church treasurers and administrators to use in planning for the year ahead. The updated edition, for the 2019 tax year, is on Benefits Connect. For a printed copy, call 800-773-7752 (800-PRESPLAN).

I hope you'll find these publications helpful.

Sincerely,
The Reverend Frank Clark Spencer

President
Board of Pensions

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SPECIAL SUPPLEMENT

UPDATE ON THE HOUSING ALLOWANCE LITIGATION CHALLENGES

By Richard R. Hammar, J.D., LL.M., CPA

Since 2013, a nonprofit organization known as the Freedom from Religion Foundation, Inc. (FFRF) has been pursuing litigation in federal court challenging the constitutionality of Section 107 of the Internal Revenue Code, the provision excluding the value of a manse or housing allowance from a minister's federal taxable income. Early on in the case, the parties agreed to limit the challenge to the cash housing allowance Section 107(2).

Litigation Background

In November 2013, Judge Barbara Crabb of the District Court for the Western District of Wisconsin ruled that the Internal Revenue Code constituted an unconstitutional preference for religion. *Freedom from Religion Foundation, Inc., v. Lew, 983 F. Supp. 2d 1051 (W.D. Wis. 2013)*. The government appealed the decision in the Seventh Circuit Court of Appeals and on November 13, 2014, the federal appeals court dismissed the lawsuit, reversing the Wisconsin court's decision on the basis that the plaintiffs lacked standing to pursue their challenge because the IRS had never denied the exclusion. *Freedom from Religion Foundation, Inc., v. Lew, 773 F.3d 815 (7th Cir. 2014)*

The FFRF endeavored to correct the standing problem by designating a housing allowance for two of its officers. The officers reported their allowances as taxable income on their tax returns and thereafter filed amended tax returns seeking a refund of the income taxes paid on the amounts of their designated housing allowances. FFRF claims that in 2015 the IRS denied the refunds sought by its officers (one of whom had died and was represented by her executor). Thereafter, the FFRF renewed its legal challenge seeking to have the cash housing allowance exclusion declared unconstitutional by filing a second suit in the federal district court in Wisconsin.

Current Status

On October 6, 2017, Judge Barbara Crabb again ruled that the ministerial cash housing allowance under Section 107(2) of the Internal Revenue Code is an unconstitutional preference for religion. *Gaylor v. Mnuchin, (W.D. Wis. 2017).* Judge Crabb observed:

> [The housing allowance] violates the establishment clause because it does not have a secular purpose or effect and because a reasonable observer would view the statute as an endorsement of religion.
>
> Although defendants try to characterize [the housing allowance] as an effort by Congress to treat ministers fairly and avoid religious entanglement, the plain language of the statute, its legislative history and its operation in practice all demonstrate a preference for ministers over secular employees. Ministers receive a unique benefit ... that is not, as defendants suggest, part of a larger effort by Congress to provide assistance to employees with special housing needs. A desire to alleviate financial hardship on taxpayers is a legitimate purpose, but it is not a secular purpose when Congress eliminates the burden for a group made up of solely religious employees but maintains it for nearly everyone else. Under my view of the current law, that type of discriminatory treatment violates the establishment clause.

In response to post-judgment motions, in December 2017, Judge Crabb stayed the enforcement of her decision for 180 days after the final appellate order.

An appeal to the Seventh Circuit Court of Appeals, which covers the states of Illinois, Indiana, and Wisconsin, was filed and argued before a three-judge panel on October 24, 2018. A decision should be forthcoming in 2019. The Seventh Circuit's decision would be the final appellate order, and governing law, unless the United States Supreme Court agreed to hear an appeal of the Circuit Court decision — an unlikely outcome because the Supreme Court accepts less than one percent of all appeals.

It is important to note that this case, like the earlier case, does not presently challenge the constitutionality of in-kind church-provided housing in a manse under Code Section 107(1). It is limited to cash housing allowances (including cash allowances for utilities and furnishings for manses, etc.).

The Church Alliance, a coalition of chief administrative officers of 37 denominational church plans, is concerned about the substantial impact that an adverse decision would have on religious organizations and ministers.

1) Many ministers will experience an immediate increase in income taxes.
2) Many churches will need to increase ministers' compensation to offset the adverse financial impact. Thousands of ministers have purchased a home, and obtained a mortgage loan, on the assumption that the housing allowance would continue to be available as it has for more than a half century. The sudden elimination of this tax benefit will immediately thrust many clergy into a dire financial position with a mortgage loan based on a tax benefit that no longer is available. Many church leaders will want to reduce the impact of such a predicament by increasing compensation. Such an increase could be phased out over a period of years to minimize the impact on the church.
3) Ministers who are considering the purchase of a new home should not base the amount and affordability of a home mortgage loan on the availability of a housing allowance exclusion unless and until the courts conclusively rule in favor of the constitutionality of the allowance.
4) Retirement income from a church plan is also excludable as housing allowance under Section 107. With the full taxation of retirement benefits, denominational retirement programs, designed to provide adequate replacement income for retired ministers, will see a substantial erosion in their programs' post-tax replacement income ratio for retired ministers.

The Church Alliance has filed "friend of the court" briefs in support of the constitutionality of the housing allowance and, if necessary, will seek legislative relief to avoid the consequences described above.

Churches may continue to designate cash housing allowances for their ministers for 2018 and future years unless and until the housing allowance is conclusively declared unconstitutional. Although it is unlikely that a decision finding the housing allowance unconstitutional would be enforced retroactively, if it were, a minister would need to file an amended return for any open years. The Board of Pensions will continue to alert its members of any major developments in this case.

KEY POINT ***Ministers should address the continuing availability of the housing allowance with their tax and financial planning professionals.***

Part 1: INTRODUCTION

TAX HIGHLIGHTS FOR 2018

1. The Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act of 2017 ("TCJA"). In brief, the Act amends the Internal Revenue Code to reduce tax rates and modify credits and deductions for individuals and businesses.

Key individual tax provisions, which took effect as of January 1, 2018, include, but are not limited to the following:

1) There are seven individual income tax rate brackets: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. Going forward, these income tax brackets will be indexed for inflation.
2) Personal and dependent exemptions are eliminated from 2018 through 2025.
3) The standard deduction increases in 2018 through 2025. In 2018, the standard deduction amounts are:
   - $12,000 (single or married filing separately)
   - $18,000 (head of household)
   - $24,000 (married filing jointly)
4) The child tax credit increases in 2018 through 2025. The maximum child tax credit increased from $1,000 to $2,000 per qualifying child. The refundable portion of the credit increased from $1,000 to $1,400. A nonrefundable credit of $500 will be allowed for dependents who do not qualify for the child tax credit. These credits phase out over certain income levels:
   - $200,000 (single)
   - $400,000 (married filing jointly)
5) The state and local tax or state and local sales tax, including real property tax itemized deduction, is limited to a combined total limit of $10,000 ($5,000 if married filing separately).
6) The home mortgage interest itemized deduction on a new mortgage is limited to interest paid on a maximum of a new mortgage of $750,000 ($375,000 married filing separately) taken out after December 14, 2017. Interest on a home equity loan is no longer deductible.
7) The itemized deduction for medical expenses remains deductible. For 2018, medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income. In 2019, the threshold will increase to 10% of adjusted gross income.
8) The itemized deduction for personal moving expenses and the exclusion from income for employer-provided moving expense reimbursements is eliminated for taxable years 2018 through 2025, with exceptions for members of the military.

HOW TO USE THIS GUIDE

This book contains the basic information you need to complete your 2018 federal income tax return. It gives special attention to several forms and schedules, and the sections of each form most relevant to ministers. The companion resource — *Federal Reporting Requirements for Churches* — helps churches comply with their federal tax reporting requirements.

This guide is divided into the following sections:

Part 1. Introduction — This section reviews tax highlights for 2018 and presents several preliminary questions you should consider before preparing your tax return.

Part 2. Special Rules for Ministers — In this section, you learn how to determine whether or not you are a minister for tax purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how to pay your taxes.

Part 3. Step-By-Step Tax Return Preparation — This section explains how to complete the most common tax forms and schedules for ministers.

Part 4. Other Forms and Schedules — This section provides line-by-line discussions of various schedules and forms, including Schedules A and B.

Part 5. Retain for Your Records — This section includes a letter from The Board of Pensions of the Presbyterian Church (U.S.A.) designating certain pension, disability, and retirement savings benefits as housing allowance.

Part 6: Comprehensive Examples and Sample Forms — This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.

9) The overall limit on itemized deductions and current phase out rules are repealed beginning in 2018.

10) Modifies section 529 plans to allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private or religious elementary or secondary school. The new rules apply to distributions made after December 31, 2017. A "section 529 plan" (also known as a "qualified tuition plan") is a plan operated by a state or educational institution with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or grandchild. The main tax advantage of a 529 plan is that earnings are not subject to federal tax and generally are not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board.

11) Under the Affordable Care Act ("Obamacare"), individuals must be covered by a health plan that provides at least "minimum essential coverage" or be subject to a penalty for failure to do so (commonly referred to as the "individual mandate"). For 2018, the penalty could be up to $2,085 for a family, or $695 for an individual. The Tax Cuts and Jobs Act reduces the amount of the ACA's individual mandate to $0 with respect to health coverage status for months beginning after December 31, 2018.

12) Eliminates most miscellaneous itemized deductions. Those other itemized deductions that are deductible (subject to some limitations) are as follows:

    - Gambling losses (gambling losses include, but are not limited to, the cost of non-winning bingo, lottery, and raffle tickets), but only to the extent of gambling winnings reported on Schedule 1 (Form 1040), line 21.
    - Casualty and theft losses of income-producing property from Form 4684, lines 32 and 38b, or Form 4797, line 18a.
    - Loss from other activities from Schedule K-1 (Form 1065-B), Box 2.
    - Federal estate tax on income in respect of a decedent.
    - A deduction for amortizable bond premium (for example, a deduction allowed for a bond premium carryforward or a deduction for amortizable bond premium on bonds acquired before October 23, 1986).
    - A ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument (for example, a Treasury Inflation-Protected Security).
    - Deduction for repayment of amounts under a claim of right if over $3,000. See Publication 525 for details.
    - Certain unrecovered investment in a pension.
    - Impairment-related work expenses of a disabled person.

2. Other Tax Changes of Interest to Churches and Church Staff

There were several tax developments in 2018 that will affect tax reporting by both ministers and churches for 2018 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit for 2018 if (1) you do not have a qualifying child and you earned less than $15,270 ($20,950 if married); (2) a qualifying child lived with you and you earned less than $40,320 ($46,010 if married filing jointly); (3) two qualifying children lived with you and you earned less than $45,802 ($51,492 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than $49,194 ($54,884 if married filing jointly). The maximum earned income credit for 2018 is (1) $519 with no qualifying child; (2) $3,461 with one qualifying child; (3) $5,716 with two qualifying children; and (4) $6,431 with three or more qualifying children.

- For contributions in 2018 to a traditional IRA, the deduction phaseout range for an individual covered by a retirement plan at work begins at income of $101,000 for joint filers and $63,000 for a single person or head of household. These amounts increase to $103,000 for joint filers and $64,000 for a single person or head of household for 2019.

- The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan is $18,500 for 2018. It increases to $19,000 for 2019.

- The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year is $6,000 for 2018 and 2019.

- The IRS has announced that it will not issue private letter rulings addressing the question of "whether an individual is a minister of the gospel for federal tax purposes." This means taxpayers will not be able to obtain clarification from the IRS in a letter ruling on their status as a minister for any one or more of the following matters: (1) eligibility for a manse exclusion or housing allowance; (2) eligibility for exemption from self-employment taxes; (3) self-employed status for Social Security; or (4) exemption of wages from income tax withholding. The IRS also has announced that it will not address "whether amounts distributed to a retired minister from a pension or annuity plan should be excludible from the minister's gross income as a manse allowance."

- The standard business mileage rate was 54.5 cents per mile for business miles driven during 2018. The standard business mileage rate for 2019 is 58 cents per mile.

- The Tax Cuts and Jobs Act changes may result in lower tax rates, higher standard deductions, and lower estimated tax payments for many taxpayers. Be sure your estimated tax calculations or withholdings for 2019 take into account the most recent tax law changes.

- Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years. If you are under full retirement age for the entire year, $1 is deducted from your benefit payments for every $2 you earn above the annual limit. For 2019 that limit is $17,640. In the year you reach full retirement age, your monthly benefit payments are reduced by $1 for every $3 you earn above a different limit. For 2019 that limit is $46,920 ($3,910 per month) but only earnings before the month you reach full retirement age are counted.

- A provision in the TCJA imposes a tax (the unrelated business income tax) of 21 percent on expenses associated with benefits provided to employees through a qualified transportation fringe benefit program as defined by IRC Section 132(f). These benefits include employer provided parking, mass transit passes, and commuter vans. The change only applies to employers providing the benefits; the benefits remain excludible from income (or pretax) for employees, subject to the IRS limits. Churches providing these benefits must file Form 990-T to report the costs and the related tax. The provision of parking to employees may come through payment of parking fees for employees or by provision of parking on the church's premises. While there has been much debate over the application of the new law to on-site employer provided parking, the current consensus is that the new tax applies to employers whose on-site parking provided to employees has value because parking in the area is only provided on a paid basis. The IRS has provided some guidance and the Church Alliance has requested further application of the rules to church parking lots. The Church Alliance, and other nonprofit organizations, including churches, have also petitioned Congress requesting repeal of the provision, and several bills have been introduced to repeal the provision. However, until Congress or the IRS provides relief, churches should prepare to comply with the new law by reporting expenses associated with qualified transportation fringe benefits on Form 990-T and paying the unrelated business income tax (21 percent) on this imputed income.

PRELIMINARY QUESTIONS

Below are several questions you should consider before preparing your 2018 federal tax return.

Q. Must ministers pay federal income taxes?

A. Yes. Ministers are not exempt from paying federal income taxes.

Q. How much income must I earn to be required to file a tax return?

A. Generally, ministers are required to file a federal income tax return if they have earnings of $400 or more to report their self-employment tax. Different rules apply to ministers who are exempt from self-employment taxes.

Q. Can I use the simpler Forms 1040A or 1040EZ rather than the standard Form 1040?

A. All taxpayers use the newly redesigned Form 1040 for 2018 and future years. Forms 1040A and 1040EZ no longer will be used.

Q. What records should I keep?

A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits.

Q. What is the deadline for filing my federal income tax return?

A. The instructions to Form 1040 state that the deadline for filing Form 1040 for the 2018 tax year is April 15, 2019. If you live in Maine or Massachusetts, you have until April 17, 2019, because of the Patriots' Day holiday (April 16, 2019).

Q. What if I am unable to file my tax return by the deadline?

A. You can obtain an automatic six-month extension (from April 15 to October 15, 2019) to file your 2018 Form 1040 if you file Form 4868 by April 15, 2019 with the IRS service center for your area. Your Form 1040 can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to file your return; it is not an extension of the obligation to pay your taxes. You must make an estimate of your tax for 2018 and pay the estimated tax with your Form 4868.

Q. Should I prepare my own tax return?

A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind that ministers' taxes present a number of unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules in order to accurately utilize the software. On the other hand, if you experienced unusual events in 2018, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called Taxpayer Assistance, but it is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the IRS and many of these are helpful to ministers.

RECOMMENDATIONS

If you need professional assistance, here are some tips that may help you find a competent tax professional:

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program and is subject to strict ethical requirements. However, the tax law is broad and complicated, so it should not be assumed that all CPAs are familiar with the unique rules applicable to ministers.
- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers' taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.
- Tax software may be purchased to assist with the preparation of the IRS Form 1040. Please note that some tax software does not appear to reduce a minister's self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust self-employment income and input the reduced figure into the software.
- Enhanced Financial Services is a benefit offered through the Board of Pensions' Employee Assistance Program. By contacting the Board of Pensions' third party provider, Cigna Behavioral Health (CBH), at 866-640-2772, active plan members, spouses, and their eligible dependents have free telephonic access to a team of financial experts to discuss a variety of financial matters. Certified Financial Planners, certified tax preparers, enrolled agents, Certified Public Accountants, and professionals from the banking and insurance industries are available to discuss a variety of topics. (The complete list can be found on the CBH website at https://my.cigna.com.)
- To have your tax returns prepared telephonically for a fee typically discounted over retail rates, call the Enhanced Financial Services component of CBH at 866-640-2772. A tax professional can thoroughly explain the process to you and answer your questions.

Part 2. SPECIAL RULES FOR MINISTERS

Who is a minister for federal tax purposes?

KEY POINT ***The IRS has its own criteria for determining who is a minister for tax purposes.***

The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a minister for tax purposes is a very important question, since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- eligibility for housing allowances;
- self-employed status for Social Security;
- exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to pay their taxes, unless they elect voluntary withholding); and
- eligibility under very limited circumstances to exempt themselves from self-employment taxes.

These special rules only apply to persons qualifying as a minister and with respect to compensation received in the exercise of ministerial services.

Example
Pastor J is an ordained minister employed by a church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of his ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance, since this work would not be the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as minister for tax purposes. See IRS Publication 517.

Are ministers employees or self-employed for federal tax purposes?

KEY POINT ***Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts, and should receive a Form W-2 from their church reporting their taxable income. However, ministers are self-employed for Social Security (with respect to services they perform in the exercise of their ministry).***

Ministers have a *dual* tax status. For federal income taxes they ordinarily are employees, but for Social Security they are self-employed with regard to services performed in the exercise of their ministry. These two rules are summarized below:

Income Taxes

For federal income tax reporting, most ministers are employees under the tests currently used by the IRS. This means that they should receive a Form W-2 from their church at the end of each year (rather than a Form 1099). Formerly, it meant that they reported their employee business expenses on Schedule A rather than on Schedule C. (The deduction for employee business expenses as Miscellaneous Itemized Deductions on Schedule A is suspended through 2025, so employee business expenses are not deductible at this time.) A few ministers are self-employed, such as some traveling evangelists and some interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee but will be self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

Example
Pastor B is a minister at First Presbyterian Church. She is an employee for federal income tax reporting purposes with respect to her church salary. However, she is self-employed with respect to honoraria she receives for speaking in other churches and for compensation church members give her for performing personal services such as weddings and funerals. The church issues Pastor B a Form W-2 reporting her church salary. Pastor B reports this amount as wages on line 1 of Form 1040. She reports her compensation and expenses from the outside self-employment activities on Schedule C.

KEY POINT ***Most ministers will be better off financially being treated as employees, since the value of various fringe benefits will be tax free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.***

KEY POINT ***Ministers and other church staff members should carefully review their Form W-2 to be sure it does not report more income than was actually received or fails to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (Form W-2c).***

The Tax Court Test

The United States Tax Court has created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work; (2) which party invests in the facilities used in the work; (3) the opportunity of the individual for profit or loss; (4) whether or not the employer has the right to discharge the individual; (5) whether the work is part of the employer's regular business; (6) the permanency of the relationship; and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

Social Security

The tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry — even if they report their income taxes as an employee. This means that ministers must pay self-employment taxes (Social Security taxes for the self-employed) unless they have filed a timely exemption application (Form 4361) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

KEY POINT ***While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee's share of Social Security and Medicare taxes, even though they report their income taxes as employees and receive a Form W-2 from their church. Rather, they pay the self-employment tax (SECA).***

Exemption from Self-Employment (Social Security) Taxes

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their ministerial earnings. Among other things, the exemption application (Form 4361) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of $400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by nongovernmental institutions (such as a life insurance company). Additionally, the exemption does not require a minister to revoke all rights to Social Security benefits earned through their participation in the system through secular employment.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program) which are related to services performed as a minister. Economic, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when it is approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing that they do not qualify for the exemption. A decision to opt out of self-employment tax is irrevocable. Congress did provide ministers with a brief "window" of time to revoke an exemption by filing Form 2031 with the IRS. This opportunity expired in 2002 and has not been renewed.

An exemption from self-employment taxes applies only to compensation for ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any non-ministerial compensation they receive. They remain eligible for Social Security benefits based on their non-ministerial employment, assuming that they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration has informed the author of this text that ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse's coverage, if the spouse had enough credits. However, the amount of these benefits will be reduced by the so-called "windfall elimination provision." Contact a Social Security Administration office for details..

KEY POINT ***The amount of earnings required for a quarter of coverage in 2019 is $1,360. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.***

KEY POINT ***Ministers who work after they retire must continue to pay self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax as a minister and they are employed in a ministerial capacity).***

KEY POINT ***In 1970, the IRS ruled that ministers who exempt themselves from self-employment taxes solely on the basis of economic considerations are not legally exempt. Revenue Ruling 70-197. The IRS concluded: "The taxpayer filed the Form 4361 solely for economic considerations and not because he was conscientiously opposed to, or because of religious principles opposed to, the acceptance of any public insurance of the type described on the form. Accordingly … the taxpayer did not qualify for the exemption since the Form 4361 filed solely for economic reasons is a nullity." Ministers wanting to revoke an exemption from self-employment taxes should discuss this ruling with a tax professional.***

How do ministers pay their taxes?

KEY POINT ***Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church with respect to federal income tax only.***

As noted above, ministers' wages are exempt from federal income tax withholding. This means that a church does not have to withhold income taxes from a minister's paycheck. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share of Social Security and Medicare taxes from a minister's wages. Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they enter into a voluntary withholding arrangement with their church.

Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual tax, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should recalculate your estimated tax liability for the year and amend your remaining quarterly payments accordingly or submit additional payments.

You will need to make estimated tax payments for 2019 if you expect to owe at least $1,000 in tax for 2019 after subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of (1) 90 percent of the tax to be shown on your 2019 tax return, or (2) 100 percent of the tax shown on your 2018 tax return (110 percent if adjusted gross income exceeds $150,000, or if married filing separately, more than $75,000). Your 2018 tax return must cover all 12 months.

The four-step procedure for reporting and prepaying estimated taxes for 2019 is summarized below.

STEP 1.

Estimated tax payments may be paid using either of the following methods:

- Obtain a copy of IRS Form 1040ES for 2019 before April 15, 2019. You can obtain forms by calling the IRS toll-free forms hotline at 800-TAX-FORM (800-829-3676), or from the IRS website (irs.gov). If you paid estimated taxes last year, you should receive a copy of your 2019 Form 1040-ES in the mail with payment vouchers preprinted with your name, address, and Social Security number; or
- Enroll in the Electronic Federal Tax Payment System at www.eftps.gov and establish an online account to be used to submit payments.

STEP 2.

Compute your estimated tax for 2019 using the Form 1040-ES worksheet. Ministers' quarterly estimated tax payments should take into account both income taxes and self-employment taxes.

STEP 3.

Pay one-fourth of your total estimated taxes for 2019 in each of four quarterly installments as follows:

FOR THE PERIOD	DUE DATE
January 1–March 31	April 17, 2019
April 1–May 31	June 17, 2019
June 1–August 31	September 16, 2019
September 1–December 31	January 15, 2020

You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the scheduled dates.

If the due date for making an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if you make it on the next day that is not a Saturday, Sunday, or legal holiday. You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES.

STEP 4.

After the close of 2018, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on Form 1040 are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2019 quarterly estimated tax payment, or spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

KEY POINT ***Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed Form W-4 (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church does not withhold the employee's share of Social Security and Medicare taxes. However, ministers can request on Form W-4 (line 6) that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister's self-employment tax liability. Many churches understandably withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld.***

Part 3. STEP-BY-STEP TAX RETURN PREPARATION

Tax forms and schedules

This step-by-step analysis covers these forms and schedules:

Form 1040 is the basic document you will use. It summarizes all of your tax information. Details are reported on supplementary schedules and forms. Note that the IRS has unveiled a new and redesigned Form 1040 that reflects the many tax law changes made by the Tax Cuts and Jobs Act of 2017. The new 1040 — about half the size of the current version — replaces the current Form 1040 as well as the Form 1040A and the Form 1040EZ. The new Form 1040 is different from its predecessors in several ways including the following:

1) It is half the size of the previous Form 1040 and consists of two half pages.

2) Health care coverage (mandatory through 2018) is reported by checking a box on page 1 (it was reported on line 61 on the 2017 form).

3) Personal and dependent exemptions are eliminated from 2018 through 2025 and have been removed from Form 1040.

4) Some lines have been consolidated. For example, several items of income, capital gains, rental income, etc. are consolidated and reported on Line 6.

5) Wages are now reported on line 1 (instead of line 7 for the past several years).

6) Adjusted gross income is reported on line 7 and without detail on the form (instead of line 37 for the past several years).

7) The standard deduction is reported on line 8, and is significantly larger than in 2017 ($12,000 for single and married filing separately, $24,000 for married persons filing jointly, and $18,000 for head of household).

8) Several credits are now reported on Schedule 3 and consolidated on line 12b (they were reported on separate lines in 2017).

9) Many lines in the previous Form 1040 have been deleted and transferred to various schedules. In fact, the 79 lines on the 2017 Form 1040 have been reduced to 23. For example:

   - Business income is reported on Schedule C as in prior years, but is then posted to Schedule 1 of Form 1040 rather than line 12 as in prior years.
   - Adjustments to income, reported on lines 23-36 of the 2017 Form 1040 are now reported on lines 23-36 of Schedule 1 (Form 1040).
   - Schedule 2 (Form 1040) lists taxes that were reported on lines 45-47 in the 2017 Form 1040.
   - Schedule 3 (Form 1040) lists "nonrefundable credits," including credits for child and dependent care expenses and education credits that were reported on lines 48-55 in the 2017 Form 1040.
   - Schedule 4 (Form 1040) lists "other taxes" (including the self-employment tax) reported on lines 57-63 in the 2017 Form 1040.
   - Schedule 5 (Form 1040) lists "other payments," including self-employment taxes that were reported on lines 64-74 in the 2017 Form 1040.

KEY POINT ***Some references in this Guide are to lines in the new Form 1040, but others refer to lines in the new "schedules." Be sure you distinguish between these terms to avoid confusion***

Schedule A is for itemized deductions for medical and dental expenses, taxes, interest, certain disaster related casualty losses, and charitable contributions.

New in 2018.
Beginning with tax year 2018 no miscellaneous itemized deductions that formerly were subject to a 2% of adjusted gross income limitation are allowed. This and other changes to Schedule A are addressed in Part 4 of this guide.

Schedule B is for reporting dividend and interest income.

Schedule C is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

Schedule SE is for reporting Social Security taxes due on your self-employment income. Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved Form 4361 from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 6 of this guide. These forms and schedules are the ones most commonly used by ministers. These forms may be obtained at certain local post offices or IRS office. Or, you can obtain them by calling the IRS toll-free forms hotline at 800-TAX-FORM (800-829-3676). They also are available on the IRS website (irs.gov).

Form 1040

STEP 1: FILING STATUS

Select the appropriate filing status from the five options listed in this section of the Form 1040.

In 2015, the United States Supreme Court ruled that the right of same-sex couples to marry is part of the Fourteenth Amendment's guarantees of due process and equal protection of the laws, and therefore any state law that in any way limits this right is unconstitutional and void. *Obergefell v. Hodges, 135 S. Ct. 2584 (2015).* The effect of the Court's decision was to invalidate laws and constitutional provisions in several states defining marriage solely as a union between one man and one woman, and to treat same-sex marriages the same as opposite-sex marriages for purposes of federal tax law.

STEP 2: NAME AND ADDRESS

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse's name in the entry space on the far right of the filing status checkboxes (next to "Qualifying widow(er)") instead of below your name. If you filed a joint return for 2017 and you are filing a joint return for 2018 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2017 return.

If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the Social Security Administration (SSA) before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on SSA file must be used in filing your tax return.

Enter your P.O. Box number only if your post office does not deliver mail to your home.

If you want $3 to go to the presidential election campaign fund, check the box labeled "you." If you are filing a joint return, your spouse can also have $3 go to the fund (check "spouse"). If you check a box, your tax or refund will not change.

STEP 3: DEPENDENTS

In the past taxpayers were allowed a personal exemption for themselves and certain dependents. All personal exemptions are eliminated from 2018 through 2025, so they cannot be claimed on the 2018 Form 1040. However, it is still necessary to determine who qualifies as dependents and include them on the return. Dependents determine various credits, such as the child tax credit, as well as other tax related items such as educational credits, medical expenses, child care credit, and earned income credit, just to name a few.

STEP 4: INCOME

Several items of income are reported on lines 1 through 6 (including amounts carried over from Schedule 1, lines 10-22). The most important of these (for ministers) are discussed below.

KEY POINT ***Some items, such as the housing allowance, are not reported as income. They are called exclusions and are explained below.***

Line 1. Wages, salaries, tips, etc.

As an employee, you should receive a Form W-2 from your church reporting your wages at the end of each year. Report this amount on line 1.

Determining church wages or salary. Besides a salary, ministers' wages reported on Form W-2 may include several other items, including:

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by the church)
- Most Christmas and special occasion offerings
- Retirement gifts paid by a church
- The portion of a minister's self-employment tax paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a nonaccountable plan
- Imputed cost of group term life insurance coverage (including death benefits under the Benefits Plan) exceeding $50,000 and cost of coverage of spouse and dependents if over $2,000 which is paid by the church
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- "Discretionary funds" established by a church for a minister to spend on current needs — if the minister is allowed to distribute funds for his or her personal benefit
- "Imputed interest" from "below-market interest loans" of at least $10,000 made by a church to a minister (some exceptions apply)
- Cancellation of a minister's debt to a church
- Severance pay
- Payment of a minister's personal expenses by the church
- "Love gifts"

KEY POINT ***The IRS can assess intermediate sanctions in the form of substantial excise taxes against a minister who is a "disqualified person" (meaning an officer, director, or other control party as well as relatives of such persons) and in some cases against church board members who authorize excess benefit transactions. Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion "gift" to a minister, gives church property (such as a manse) to the minister, or sells church property to the minister at an unreasonably low price. A rebuttable presumption arises that compensation is reasonable if it is approved by an independent board on the basis of outside "comparable data" such as independent compensation surveys, and the basis for the board's decision is documented.***

KEY POINT ***The IRS has ruled that "disqualified persons" receive "automatic" excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes, or receive nonaccountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income by the church on the disqualified person's Form W-2, or by the disqualified person on his or her Form 1040, for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches, and exposes some ministers and church board members to intermediate sanctions.***

If some of these items were not reported on your Form W-2, they still must be reported as income. Your church should issue a "corrected" Form W-2 (Form W-2c) for the year in which one or more items of taxable income was not reported on your Form W-2. If you receive a Form W-2c and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on Form W-2c with those reported on your income tax return. If the corrected amounts change your U.S. income tax, file Form 1040X, Amended U.S. Individual Income Tax Return, with Copy B of Form W-2c to amend the return you previously filed.

In addition to what is reported on Form W-2 (or Form W-2c), Line 1 will also report the amount of excess housing allowance calculated (the amount by which the housing allowance exceeds the lesser of the minister's housing expenses or the fair rental value of the minister's home plus utilities).

Items not reported on line 1. Some kinds of income are not taxable. These items are called exclusions. Most exclusions apply in computing both income taxes and self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes. Some of the more common exclusions for ministers include:

- **Gifts**. Gifts, as defined by the Internal Revenue Code and the courts, are excludable from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a CPA or a tax attorney.
- **Life insurance and inheritances**. Life insurance proceeds and inheritances are excludable from taxable income. Income earned before distributions of proceeds is generally taxable as income.
- **Employer-paid medical insurance premiums**. Medical insurance premiums paid by an employer for employees (and their spouses and dependents) are excludable from taxable income. This exclusion is not available to self-employed individuals.
- **Accident and health plans**. Amounts received by employees as reimbursements for medical care under an employer-financed accident and health plan are excludable from taxable income. This exclusion is not available to self-employed individuals.
- **Employer-paid group life insurance.** Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed $50,000.
- **Tuition reductions**. School employees may exclude from their taxable income a "qualified tuition reduction" provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.
- **Lodging**. The value of lodging furnished to a minister, i.e., a manse, is excluded from income. This exclusion is not available in the computation of self-employment taxes. The value of lodging furnished to a non-minister employee on an employer's premises and for the employer's convenience may be excludable from taxable income if the employee is required to accept the lodging as a condition of employment.
- **Educational assistance**. Amounts paid by an employer for an employee's tuition, fees, and books may be excludable from the employee's taxable income, if the church has adopted a written educational assistance plan. The exclusion may not exceed $5,250 per year.
- **Employer-provided childcare**. The value of free childcare services provided by a church to its employees is excluded from employees' income so long as the benefit is based on a written plan that does not discriminate in favor of highly compensated employees. Other conditions apply.
- **Nondiscrimination rules**. Many of the exclusions are not available to employees who are either "highly compensated employees" or "key employees" if the same benefit is not available on a nondiscriminatory basis to lower-paid employees. For 2018, a highly compensated employee is an employee whose compensation for the previous year was in excess of $120,000. A "key employee" is more broadly defined, without reference to compensation, for health and welfare plans.

KEY POINT ***Some exclusions are available only to taxpayers who report their income taxes as employees and not as self-employed persons. Many, however, apply to both employees and self-employed persons.***

There are four other exclusions that are explained below: the housing allowance, tax-sheltered annuities, qualified scholarships, and sale of a home.

Housing Allowance

KEY POINT ***The housing allowance is being challenged in a federal lawsuit as an unconstitutional preference for religion. The current status of this case is summarized in a special supplemental section at the beginning of this tax guide.***

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses, and (3) it does not exceed the fair rental value of the home (furnished, plus utilities). Housing-related expenses include mortgage payments, rent, utilities, repairs, furnishings, insurance, property taxes, additions, and maintenance.

A church cannot designate a housing allowance retroactively. Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church-owned manse do not pay federal income taxes on the fair rental value of the manse.

$ Tax savings tip

Ministers who live in a church manse and incur any out-of-pocket expenses in maintaining the manse (such as utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates in advance a portion of their annual compensation as a manse allowance. The amount so designated is not reported as wages on the minister's Form W-2 at the end of the year (if the allowance exceeds the actual expenses, the difference must be reported as income by the minister). This is an important tax benefit for ministers living in a church-provided manse. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

The rental value of a manse, and a housing allowance, are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a manse when computing self-employment (Social Security) taxes unless they are retired. The tax code specifies that the self-employment tax does not apply to "the rental value of any manse or any manse allowance provided after the [minister] retires."

Ministers should check their state income tax rules to determine the housing allowance rules for state income taxes.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a Form W-2 or a Form 1099).

Housing expenses to include in computing your housing allowance exclusion

Ministers who own or rent their home should take the following expenses into account in computing their housing allowance exclusion:

- Down payment on a home (but note that a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the amount designated by their church, the actual housing expenses, or the fair rental value of a minister's home, as furnished, plus utilities)
- Mortgage payments on a loan to purchase or improve your home (include both interest and principal)
- Rent
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, trash pickup, land-line telephone charges)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (pest control, etc.)
- Homeowners association dues

KEY POINT ***In 2007, the Tax Court characterized internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for internet expenses (i.e., internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.***

Please note the following:

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.
- The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses, and, for ministers who own or rent their home, does not exceed the fair rental value of their home (furnished, plus utilities).
- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is only effective prospectively. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by their church. Remember, however, that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (furnished, plus utilities).
- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home, the excess housing allowance should be reported on line 1 of Form 1040.
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on Schedule SE (unless they are exempt from self-employment taxes).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

Example

A church designated $25,000 of Pastor D's 2018 compensation as a housing allowance. Pastor D's housing expenses for 2018 were utilities of $4,000, mortgage payments of $18,000, property taxes of $4,000, insurance payments of $1,000, repairs of $1,000, and furnishings of $1,000. The fair rental value of the home (including furnishings) is $19,000. Pastor D's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of her home (furnished, plus utilities). Stated differently, the nontaxable portion of a housing allowance is the least of the following three amounts: (1) the housing allowance designated by the church; (2) actual housing expenses; (3) the fair rental value of the home (furnished, plus utilities). In this case, the lowest of these three amounts is the fair rental value of the home, furnished plus utilities ($23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by her church ($2,000) as additional income on line 1 of Form 1040.

Example

Same facts as the previous example, except the church designated $12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be $12,000 (the church designated housing allowance) and so this represents the nontaxable amount. Note that the Pastor D's actual housing expenses were more than the allowance, and so she was penalized because of the low allowance designated by her church.

Example

Pastor Y owns a home and incurred housing expenses of $12,000 in 2018. These expenses include mortgage principal and interest, property taxes, utilities, insurance, and repairs. The church designated (in advance) $12,000 of Pastor Y's 2018 compensation as a housing allowance. Pastor Y is able to itemize expenses on Schedule A (Form 1040). He is able to claim itemized deductions on Schedule A for both his mortgage interest and his property taxes (up to $10,000), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the "double deduction." In fact, it represents an exclusion and a deduction.

Example

In preparing his income tax return for 2018, Pastor H discovers that his church failed to designate a housing allowance for him for 2018. He asks his church to pass a resolution retroactively granting the allowance for 2018. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2018.

KEY POINT ***The Sarbanes-Oxley Act makes it a crime to knowingly falsify any document with the intent to influence "the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States … or in relation to or contemplation of any such matter or case," and this provision contains no exemption for churches or pastors. It is possible that a pastor's backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates this provision in the Sarbanes-Oxley Act, exposing the pastor to a fine or imprisonment. Even if the pastor's action does not violate the Act, it may result in civil or criminal penalties for tax fraud under the tax code.***

$ Tax savings tip

Ministers should be sure that the designation of a housing or manse allowance for the next year is on the agenda of the church board for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items, assuming in each case that the designation was duly adopted in advance by the church.

How much should a church designate as a housing allowance?

The IRS has stated that there are no limitations on how much of a minister's compensation can be designated by his or her employing church as a housing allowance. However, as noted above, the nontaxable portion of a church-designated housing allowance for ministers who own or rent their home cannot exceed the lesser of (1) actual housing expenses, or (2) the fair rental value of the home (furnished, plus utilities).

Many churches base the housing allowance on their minister's estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister's anticipated expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should take into account unexpected housing costs or inaccurate projections of expenses.

KEY POINT ***The housing allowance is available only if two conditions are met: (1) the recipient is a minister for tax purposes (as defined above), and (2) the allowance is compensation for services performed in the exercise of ministry.***

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March of 2019 that it failed to designate a housing allowance for its pastor for 2019. It is not too late to act. The church should immediately designate a portion of its minister's remaining compensation for 2019 as a housing or manse allowance. This unfortunate problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year and all future years unless otherwise provided. If such a resolution had been adopted in the December 2017 board meeting (i.e., "for 2018 and future years") it would not matter that the church neglected to designate a minister's 2019 allowance until March of 2019, since the previous designation would have carried over. Such "safety net" designations are not a substitute for annual housing allowances (they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

KEY POINT ***Churches cannot designate a housing allowance retroactively.***

KEY POINT ***The IRS has ruled that a retired minister is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) a portion of the retired minister's pension income is designated as a housing allowance by his or her church or the church pension board of a denominational pension fund; (2) the retired minister has severed his or her relationship with the local church and relies on the fund for a pension; (3) the pensions paid to retired ministers "compensate them for past services to the local churches of the denomination or to the denomination." Retired ministers who receive benefits from a denominational pension fund will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the rental value of a home (plus utilities) furnished to them by their church as a part of their pay for past services. A minister's surviving spouse cannot exclude a housing allowance or rental value of a manse unless the allowance or manse is for ministerial services he or she performs or performed.***

The self-employment tax does not apply to the rental value of a manse or a housing allowance provided after a minister retires.

KEY POINT ***Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans or a conventional loan secured by a mortgage on their otherwise debt-free home, and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.***

Section 403(b)(9) plans

For 2018, payments made by your church and your salary reduction contributions to a 403(b)(9) plan (other than contributions made to a Roth account) are not reportable income for income tax or self-employment tax purposes, as long as the total amount credited to your retirement account does not exceed contribution limits under Sections 415(c) and 402(g) of the tax code. Roth account contributions are reportable and subject to income tax but not SECA tax.

Contribution limits

For 2018, total annual additions (employer contributions, employee elective salary deferrals, and after tax contributions) could not exceed the lesser of 100 percent of your compensation (excluding a minister's housing allowance) or $55,000. This rule is known as the "Section 415(c) limit," "maximum annual contributions," or MAC (catch-up contributions discussed below are not included in the total addition). Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b)(9) plan or to an IRA. The limit on annual additions is $56,000 for 2019.

Minister's housing allowance and contribution limits

The definition of compensation for purposes of computing the Section 415(c) limit does not include the portion of a minister's housing allowance that is excludable from gross income, or the annual rental value of a manse.

Taxation of distributions from a 403(b)(9) plan

Amounts you contribute through salary reduction, and the earnings attributable to these contributions, generally cannot be withdrawn before you reach age 59½, separate from service, die, or become disabled. In some cases of hardship, you may withdraw your own salary reduction contributions (but not the earnings on these) prior to the occurrence of any of the above events. A 403(b)(9) plan may make hardship distributions only if permitted by the plan.

Once amounts are distributed, they are generally taxable as ordinary income unless designated in advance as a minister's housing allowance. In addition, if amounts are distributed prior to your reaching age 59½, you will be assessed an additional tax of 10 percent of the amount that is includable in income, unless one of the following exceptions applies:

- The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries and after you separate from service.
- The distributions are made after you separate from service in or after the year in which you reach age 55.
- The distributions do not exceed the amount of medical expenses that you could deduct for the current year.
- The distributions are made after your death, or after you become disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order.
- The additional tax is computed on Form 5329.

KEY POINT ***You must begin taking distributions of at least certain required minimum amounts of your account accruing after 1986 in a 403(b)(9) plan by April 1 of the calendar year following the later of the calendar year in which you become age 70½, or the calendar year in which you retire. This required minimum is called your required minimum distribution ("RMD"). Failure to withdraw at least the RMD will result in the participant incurring a substantial excise tax of 40% of the RMD..***

Distributions from a Roth account

Roth salary deferrals and their earnings are not subject to federal income tax at distribution as long as the withdrawal satisfies the five year Roth holding requirements and the taxpayer is age 59½ or older or has died or become disabled.

Salary reduction contributions (Section 402(g))

In addition to the Section 415(c) limit there is an annual limit on employee elective deferrals. The limit applies to the total of all elective deferrals contributed (even if contributed by different employers) for the year on your behalf to a variety of retirement plans, including 403(b)(9) plans. Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2018, the allowable limit was $18,500. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year. The dollar limit on annual elective deferrals increases to $19,000 in 2019.

KEY POINT ***Church employees can make a special election that allows their employer to contribute up to $10,000 for the year, even if this is more than 100 percent of your compensation. The total contributions over your lifetime under this election cannot be more than $40,000.***

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of (1) the "applicable dollar amount," or (2) the participant's compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount is $6,000 for 2018 and 2019. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits or the total annual additions.

Qualified scholarships

KEY POINT ***Qualified scholarships are excludable from taxable income.***

Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for the enrollment or attendance at an educational institution or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution. The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for nonqualified expenses (such as room and board). The scholarship must meet additional requirements if the recipient is an employee or a family member of an employee. Generally, the scholarship must be non-compensatory in nature, selected using non-employment related criteria, and an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA or tax attorney to determine the proper treatment of scholarships to employees and their children.

KEY POINT ***Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid "as compensation for services."***

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income.

Example

First Presbyterian Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master's degree at a seminary. The church votes to award him a scholarship of $2,500 for 2018. So long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal tax return, and the church need not issue him a Form 1099-MISC. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (for example, fees, books, supplies), or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated and the recipient used it for nonqualified expenses.

Assistance Program grants

If grants and stipends received by Benefits Plan members from the Assistance Program are needs-based gifts from the Board of Pensions and unrelated to the recipient's services for his or her employer, those amounts are excluded from taxes, unless you are an employee of the Board of Pensions. Any portion of a grant paid by your employer are reportable wages on your Form W-2 and taxable.

Sale or exchange of your principal residence

An individual taxpayer may exclude up to $250,000 ($500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange. A taxpayer who failed to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances, is able to exclude an amount equal to the fraction of the $250,000 ($500,000 if married filing a joint return) of the two years that the ownership and use requirements were met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply.

In most cases, gain from the sale or exchange of your main home will not qualify for the exclusion to the extent that the gains are allocated to periods of nonqualified use. Nonqualified use is any period after December 31, 2008, during which the property is not used as the main home.

The gain resulting from the sale of the property is allocated between qualified and nonqualified use periods based on the amount of time the property was held for qualified and nonqualified use. Gain from the sale or exchange of a main home allocable to periods of qualified use will continue to qualify for the exclusion for the sale of your main home. Gain from the sale or exchange of property allocable to nonqualified use will not qualify for the exclusion.

Gain is in most cases allocated to periods of nonqualified use based on the ratio of: (1) the aggregate periods of nonqualified use during the period the property was owned by you over (2) the total period the property was owned by you. You do not incorporate any period before 2009 for the aggregate periods of nonqualified use. Certain exceptions apply. For details, see IRS Publication 523.

A period of nonqualified use does not include: (1) Any portion of the five-year period ending on the date of the sale or exchange after the last date you (or your spouse) use the property as a main home; (2) any period (not to exceed an aggregate period of 10 years) during which you (or your spouse) are serving on qualified official extended duty as a member of the uniformed services; (3) any other period of temporary absence (not to exceed an aggregate period of two years) due to change of employment, health conditions, or such other unforeseen circumstances as may be specified by the IRS.

Line 2 (Form 1040). Interest income: Attach Schedule B if over $1,500

Complete this line only if you had interest income. Tax-exempt interest income is reported on Line 2a with taxable interest income reported on Line 2b. If you had taxable interest income of more than $1,500, complete Schedule B.

Line 3 (Form 1040). Dividend income: Attach Schedule B if more than $1,500

Complete this line only if you had dividend income. Qualified dividend income is reported on Line 3a and enter all dividend income on Line 3b. If you had dividend income of more than that $1,500, complete Schedule B.

Lines 4a and 4b (Form 1040). IRA, pension, and annuity income

You should receive a Form 1099-R showing the total amount of your pension and annuity payments before income tax or other deductions were withheld. This amount should be shown in Box 1 of Form 1099-R. Pension and annuity payments include distributions from 401(k) and 403(b)(9) plans. Do not include the following payments, instead report them on line 1.

- Disability pensions received before you reach the minimum retirement age set by the plan. The Benefits Plan long term disability payments are *not* disability pension payments.

- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.

The Board of Pensions annually designates 100 percent of pension and disability benefits paid to retired ministers as a housing allowance. In such cases, Form 1099-R may show that the taxable amount of the pension income is "not determined" by checking the Box on line 2b. If you are a retired or disabled minister, you may exclude all or a portion of your pension or disability income from your gross income reported on line 4 of Form 1040 if (1) you can document that the monies were actually spent on housing-related expenses during the tax year, (2) the amount excluded does not exceed the fair rental value of the home (furnished, including utilities) and (3) the Board of Pensions designated the retirement payments as a housing allowance.

IRS Publication 517 states: "If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed."

KEY POINT ***Surviving spouses are not entitled to exclude any portion of their benefits as a housing allowance.***

Line 5 (Form 1040). Social security benefits

KEY POINT ***Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.***

If you received Social Security benefits in 2018, you need to know whether or not these benefits are taxable. Here are several rules the IRS has formulated to assist Social Security beneficiaries in knowing if their benefits are taxable:

1) You should receive a Form SSA-1099 showing in Box 3 the total Social Security benefits paid to you. Box 4 will show the amount of any benefits you repaid in 2018. If you received railroad retirement benefits treated as Social Security, you should receive a Form RRB-1099. Use the Social Security Benefits Worksheet in these instructions to see if any of your benefits are taxable.
2) How much, if any, of your Social Security benefits are taxable depends on your total income and marital status.
3) Generally, if Social Security benefits were your only income for 2018, your benefits are not taxable and you probably do not need to file a federal income tax return.
4) If you received income from other sources, your benefits will not be taxed unless your modified adjusted gross income is more than the base amount for your filing status.
5) Your taxable benefits and modified adjusted gross income are computed on a worksheet in the instructions to Form 1040.
6) You can do the following quick computation to determine whether some of your benefits may be taxable:

   First, add one-half of the total Social Security benefits you received to all your other income, including any tax-exempt interest and other exclusions from income.

   Then, compare this total to the "base amount" for your filing status. If the total is more than your base amount, some of your benefits may be taxable.
7) The 2018 base amounts are:
   - $32,000 for married couples filing jointly
   - $25,000 for single, head of household, qualifying widow/widower with a dependent child, or married individuals filing separately who did not live with their spouses at any time during the year
   - $0 for married persons filing separately who lived together during the year
8) For additional information on the taxability of Social Security benefits, see IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Publication 915 is available at *irs.gov.*

Line 6 (Form 1040). Total income

Report "total income" on this line. This is the sum of the amounts reported on lines 1-5 of Form 1040, plus the additional categories of income reported on lines 10-21 of Schedule 1 (Form 1040). The most important of these for minsters include:

1) Line 12 (Schedule 1). Business income

   Complete this line only if you have any net earnings from self-employment activities; these include:

   - Compensation reported to you on a Form 1099-MISC
   - Fees received directly from church members for performing personal services (such as marriages and funerals)
   - Honoraria you received for guest speaking appearances in other churches

   If you received income from any of these kinds of activities, compute your net earnings on Schedule C and transfer this amount to line 12 of Schedule 1 (Form 1040) and then to line 6 (Form 1040). This guide includes more detailed information in the section on Schedule C. You may be able to use the simpler Schedule C-EZ if several conditions are met. See the instructions to Schedule C-EZ for details..
2) Line 13 (Schedule 1). Capital gains

   Capital gains or losses are reported on line 13 of Schedule 1 (Form 1040). Complete this line only if you have any gains or losses from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on Schedule D. You also may have to file Form 8949 (see the instructions to both forms for details). This amount, along with the other amounts reported on Schedule 1, is carried over to line 6 (Form 1040); attach Schedule D.

3) Line 21 (Schedule 1). "Other income"

"Other income" is reported on line 21 of Schedule 1 (Form 1040) and carried over to line 6 (Form 1040). If you have other income to report, consider enclosing an explanation of your other income with your Form 1040 or write a brief explanation in the space provided, next to line 21 of Schedule 1. Other income includes the following items:

- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on Schedule C)
- Most prizes and awards
- Some taxable distributions from a Health Savings Account (HSA) or Archer MSA (see IRS Publication 969)
- Jury duty pay
- Taxable benefits provided by the church but not included on Form W-2 or Form W-2c (also remember to include these benefits on Schedule SE for the calculation of self-employment tax).

STEP 5: ADJUSTMENTS TO INCOME

Line 7 (Form 1040). Adjusted gross income

You may deduct certain adjustments from total income (line 6) to compute your adjusted gross income. Report the adjustments on lines 23 through 36 of Form 1040 (Schedule 1). The total amount is subtracted from line 6 to compute adjusted gross income that is reported on line 7. If you have no adjustments to income, enter the amount from line 6 on this line.

KEY POINT ***Under the Tax Cuts and Jobs Act, beginning in 2018, reimbursements of moving expenses by an employer are taxable income and non-reimbursed moving expenses are no longer deductible, with exceptions for members of the military.***

The two most relevant adjustments for ministers are the deduction for one-half of the self-employment tax and payments to an individual retirement account (IRA). Both are summarized below.

Schedule 1 (Form 1040) line 27. Deductible part of self-employment tax: Attach Schedule SE

KEY POINT ***Every minister who pays self-employment taxes on ministerial income qualifies for this deduction. Some are not claiming it.***

All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct part of their actual self-employment taxes as an adjustment on line 27 (Schedule 1) of Form 1040, whether or not they are able to itemize deductions on Schedule A.

Schedule 1 (Form 1040) line 32. Payments to an individual retirement account (IRA)

An individual retirement account, or IRA, is a personal savings plan that allows you to set aside money for retirement, while offering you tax advantages. You can set up different kinds of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.

The original IRA is referred to as a "traditional IRA." A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

To contribute to a traditional IRA, you must be under age 70½ at the end of the tax year. You, or your spouse if you file a joint return, must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income, or as deferred compensation.

For 2018, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) $5,500 ($6,500 if you are age 50 or older), or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse's IRA contribution for the year to a traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse. The maximum annual dollar contribution limit for IRA contributions increased to $6,000 ($7,000 if age 50 or older) for 2019.

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2018 IRA contribution must be made by April 15, 2019, even if you obtain an extension for filing this return.

Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an employer provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status, see IRS Publication 590-A. If you were covered by an employer provided retirement plan, then the deduction for contributions to your IRA are completely phased out when adjusted gross income reaches $121,000 (married filing jointly) or $73,000 (single). For 2019, these limits are $123,000 (married filing jointly) and $74,000 (single). If your spouse was covered by an employer retirement plan at any time during 2018 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when adjusted gross income reaches $199,000 (married filing jointly). For 2019, this limit is $203,000 (married filing jointly).

The Form W-2 you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The "Retirement Plan" box should have a mark in it if you were enrolled in the Pension Plan of the Presbyterian Church (U.S.A) or your employer contributed to the Retirement Savings Plan. Employer retirement plans include 403(b)(9) tax-sheltered annuities.

Figure your deduction using the worksheets in the instructions to Form 1040 or in Publication 590-A.

Individuals who cannot claim a deduction for an IRA contribution still can make nondeductible IRA contributions, subject to the lesser of $5,500 for 2018 ($6,000 for 2019) or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and nondeductible contributions were made to the IRA. Form 8606 is used to designate a contribution as nondeductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10 percent penalty tax that also applies to deductible IRA contributions. Distributions from a traditional IRA are fully or partially taxable in the year of distribution. Use Form 8606 to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

Distributions made prior to age 59½ may be subject to a 10 percent additional tax. You also may owe an excise tax if you do not begin to withdraw minimum distributions by April 1st of the year after you reach age 70½.

A Roth IRA differs from a traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make nondeductible contributions to a Roth IRA. However, you may be limited in the amount of nondeductible contributions you may make to your Roth IRA due to your adjusted gross income (AGI). For those filing as married filing jointly, no contribution may be made to a Roth IRA if your AGI, as modified, is $199,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is $135,000 or above.

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a traditional IRA, a Roth IRA has limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to Publication 590-A and 590-B for additional information on Roth IRA(s).

No further contributions to a traditional IRA are permissible in the year you reach age 70½ or for any later year, and distributions from a traditional IRA must generally begin by April 1 of the year following the year in which you reach age 70½. However, you must receive at least a minimum amount for each year starting with the year you reach age 70½ (your "70½ year").

If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year. This means that you will have two required distributions in that year.

Summarized below are a few important rules that pertain to IRAs.

- Taxpayers can make early withdrawals from an IRA to pay for qualified higher education expenses of the taxpayer or the taxpayer's spouse, child, or grandchild without triggering the 10 percent penalty that applies to early distributions from an IRA.
- Taxpayers can withdraw up to $10,000 from their IRA prior to age 59½ for first-time homebuyer expenses without triggering the 10 percent penalty that applies to premature distributions.
- Tax-free qualified charitable distributions of up to $100,000 may be made from an IRA to a church or other charity in 2018. A qualified charitable distribution is any distribution from an IRA directly by the IRA trustee to a charitable organization, including a church, that is made on or after the date the IRA owner attains age 70½.

Charitable contributions.

Distributions from employer-sponsored retirement plans, including SIMPLE IRA plans and simplified employee pension (SEP) plans, are not eligible for the tax-free qualified charitable distributions of up to $100,000. To qualify, the funds must be transferred directly by the IRA custodian to the eligible charity. Distributed amounts may be excluded from the IRA owner's income, resulting in lower taxable income for the IRA owner. However, if the IRA owner excludes the distribution from income, no deduction, such as a charitable contribution deduction on Schedule A, may be taken for the distributed amount.

To report a qualified charitable distribution on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions (line 4, Form 1040). On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. See the Form 1040 instructions for additional information.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.

Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA's required minimum distribution (RMD).

STEP 6: TAX COMPUTATION

Line 8 (Form 1040). Itemized deductions or standard deduction

KEY POINT ***Itemize your deductions on Schedule A only if they exceed the standard deduction for your filing status.***

On line 8 you enter either your itemized deductions from Schedule A or a standard deduction amount. Itemized deductions are discussed under Schedule A in this guide.

For 2018, the standard deduction amounts are as follows:

Filing Status	Standard Deduction Amount
Single	$12,000
Married filing jointly or qualifying widow(er)	$24,000
Married filing separately	$12,000
Head of household	$18,000

KEY POINT ***Under the Tax Cuts and Jobs Act of 2017, personal and dependent exemptions are eliminated from 2018-2025.***

Line 11 (Form 1040). Compute tax

Most ministers can use the tax tables to determine their income taxes. Some higher income ministers must use the tax rate schedules (a spouse's income is considered in deciding whether or not to use the tax rate schedules).

STEP 7: CREDITS

A credit is a direct dollar-for-dollar reduction in your tax liability. It is much more valuable than deductions and exclusions, which merely reduce taxable income. On your 2017 Form 1040, tax credits were reported on lines 48-55. On your 2018 Form 1040, these (nonrefundable) credits are reported on lines 48-55 of Schedule 3, and the total amount for all credits is carried over to line 12b of Form 1040. The more common and important credits for ministers are the child tax credit, the credit for child and dependent care expenses, and the retirement savings credit. Each of these is addressed below.

Line 12a (Form 1040). Child tax credit

The Tax Cuts and Jobs Act of 2017 temporarily increases the child tax credit to $2,000 per qualifying child. The credit is further modified to temporarily provide for a $500 nonrefundable credit for qualifying dependents other than qualifying children (such as aging parents). The provision generally retains the present-law definition of *dependent*.

KEY POINT ***The child tax credit is doubled, from $1,000 to $2,000 per qualifying child, beginning in 2018, and a new credit of $500 is established for "non-child" dependents, such as an aging parent.***

However, the maximum amount refundable may not exceed $1,400 per qualifying child. Additionally, in order to receive the child tax credit (i.e., both the refundable and non-refundable portion) a taxpayer must include a Social Security number for each qualifying child for whom the credit is claimed on the tax return. For these purposes, a Social Security number must be issued before the due date for the filing of the return for the taxable year. This requirement does not apply to a non-child dependent for whom the $500 nonrefundable credit is claimed.

Further, the Tax Cuts and Jobs Act of 2017 retains the present-law age limit for a qualifying child. As a result, a qualifying child is an individual who has not attained age 17 during the taxable year. The law also modifies the adjusted gross income phaseout thresholds. The credit begins to phase out for taxpayers with adjusted gross income in excess of $400,000 (in the case of married taxpayers filing a joint return) and $200,000 (for all other taxpayers). These phaseout thresholds are not indexed for inflation.

These new provisions are effective for taxable years beginning after December 31, 2017, and expire for taxable years beginning after December 31, 2025, unless extended by Congress.

See IRS Publication 972 for additional information.

Line 12a (from Form 1040, Schedule 3, line 49). Credit for child and dependent care expenses: Attach Form 2441

Complete this line if you are eligible for a credit for child or dependent care expenses. See the instructions to Form 1040, line 12a, for details and conditions.

See IRS Publication 503 for additional information.

Line 12b (from Form 1040, Schedule 3, line 51. Retirement savings contributions credit ("Saver's Credit"): Attach Form 8880

If you make eligible contributions to certain eligible retirement plans, such as the Retirement Savings Plan of the Presbyterian Church (U.S.A.), or to an individual retirement account (IRA), you may be able to take a tax credit. The amount of the Saver's Credit you can get is generally based on the contributions you make and your credit rate. Refer to Publication 590-A, or the instructions for Form 8880 for more information. If you are eligible for the credit, your credit rate can be as low as 10 percent or as high as 50 percent, depending on your adjusted gross income. The lower your income, the higher the credit rate; your credit rate also depends on your filing status. These two factors will determine the maximum credit you may be allowed to take. You are not eligible for the credit if your adjusted gross income exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b)(9) annuity, a SIMPLE or a simplified employee pension (SEP), contributions to a traditional or Roth IRA, and voluntary after-tax employee contributions to a 403(b)(9) annuity or qualified retirement plan. The amount of the credit for 2018 is described in the adjusted gross income table shown on the following page.

RETIREMENT SAVINGS CONTRIBUTION CREDIT

Adjusted Gross Income			
Joint returns	Heads of household	Single filers	Amount of credit
$1-38,000	$1-28,500	$1-19,000	50% of eligible contributions up to $2,000 ($1,000 maximum credit)
$38,001-41,000	$28,501-30,750	$19,001-20,500	20% of eligible contributions up to $2,000 ($400 maximum credit)
$41,001-63,000	$30,751-47,250	$20,501-31,500	10% of eligible contributions up to $2,000 ($200 maximum credit)
over $63,000	over $47,250	over $31,500	0%

For married couples filing jointly, each spouse is eligible for the credit. For more information about this credit, see IRS Form 8880 and Publication 590-A.

STEP 8: OTHER TAXES

On the 2018 Form 1040, "other taxes" are reported on lines 57-63 of Schedule 4 and the total of all taxes is carried over to line 14 of Form 1040.

Line 14 (Form 1040). Other taxes

Report the following additional taxes on this line:

Self-employment tax

KEY POINT ***All ordained ministers must pay self-employment taxes on compensation received from the exercise of their ministry, unless they have received IRS recognition of exempt status.***

Ministers are self-employed for Social Security purposes with respect to their ministerial income. They compute their self-employment taxes on Schedule SE and report the tax on line 57 of Form 1040 Schedule 4, and report this and other taxes line 14 of Form 1040.

Individual responsibility payment

For 2018 you must either:

- Check the "Full-year health care coverage or exempt" box on the front of Form 1040 to indicate that you, your spouse (if filing jointly), and anyone you can or do claim as a dependent had qualifying health care coverage or a coverage exemption that covered all of 2018 or a combination of qualifying health care coverage and coverage exemption(s) for every month of 2018, or
- Make a shared responsibility payment if, for any month in 2018, you, your spouse (if filing jointly), or anyone you can or do claim as a dependent didn't have coverage and doesn't qualify for a coverage exemption. If you can claim any part-year exemptions or exemptions for specific members of your household, use Form 8965. This will reduce the amount of your shared responsibility payment. For more information, see the Form 8965 instructions. This payment is reported on line 61 of Schedule 4 (Form 1040) and carried over to Line 14 (Form 1040).

STEP 9: PAYMENTS

On the 2018 Form 1040, amounts representing federal income tax withholding is reported on line 16 and "other taxes" are reported on lines 66-74 of Schedule 5 and the total of these payments is carried over to line 17 of Form 1040. The two most important categories of tax "payments" are withheld taxes and estimated tax payments, as noted below.

Line 16 (Form 1040). Federal income tax withheld

Ministers' wages based on the performance of ministerial services are exempt from federal income tax withholding. As a result, only those ministers who have entered into a voluntary withholding arrangement with their church will have income taxes withheld and reported on line 16. The church should report the amount of voluntarily withheld taxes on the minister's Form W-2.

KEY POINT ***Ministers who enter into voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not withhold the employee's share of Social Security and Medicare taxes, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on Form W-4 or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Form W-2 and Form 941) rather than the employee's share of Social Security and Medicare taxes. They constitute a credit that can be applied to both income taxes and self-employment taxes. Ministers still must complete Schedule SE to report their self-employment tax liability***

Line 17 (Form 1040). Estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and Social Security (self-employment) taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The estimated tax procedure is summarized in Part 2 of this guide in the section "How do ministers pay their taxes?" The total amount of estimated tax payments made to the IRS is reported as a payment of taxes on line 66 of Schedule 5 (Form 1040), and carried over with the other kinds of payments listed on Schedule 5 to line 17 of Form 1040.

Line 17a (Form 1040). Earned income credit

The earned income credit reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the earned income credit do not claim it because it is so difficult to compute. In most cases, the amount of your earned income credit depends on: (1) whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children; and (2) the amount of your earned income and modified adjusted gross income.

You may be able to claim the earned income credit for 2018 if (1) you do not have a qualifying child and you earned less than $15,270 ($20,950 if married); (2) a qualifying child lived with you and you earned less than $40,320 ($46,010 if married filing jointly); (3) two qualifying children lived with you and you earned less than $45,802 ($51,492 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than $49,194 ($54,884 if married filing jointly). The maximum earned income credit for 2018 is (1) $519 with no qualifying child; (2) $3,461 with one qualifying child; (3) $5,716 with two qualifying children; and (4) $6,431 with three or more qualifying children.

You can compute the credit yourself or the IRS will compute it for you. To figure the amount of your earned income credit, you must use the EIC Worksheet and EIC Table in the instructions for Form 1040, line 17. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit. The credit is reported on line 17a of Form 1040.

KEY POINT ***IRS Publication 596 explains the earned income credit. It states, in general: "The rental value of a home or a housing allowance provided to a minister as part of the minister's pay generally isn't subject to income tax but is included in net earnings from self-employment." For that reason, it is included in earned income for the EIC, except for ministers who have opted out of self-employment taxes by filing a timely Form 4361 exemption application with the IRS.***

With respect to ministers who have filed a timely Form 4361, Publication 596 states:

Whether or not you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation. Amounts you received for performing ministerial duties, but not as an employee, don't count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

Affected ministers should consult their own tax advisor for guidance.

STEP 10: REFUND OR AMOUNT YOU OWE

After totaling your payments, you can calculate whether you owe the government, or a refund is due to you. If you owe a tax, be certain to enclose with your return a check in the amount you owe payable to the "United States Treasury" or by making the payment through your EFTPS account. Do not attach the check to your return. Include the check with a Form 1040-V. If you file your return electronically, the payment may be sent in separately using the Form 1040-V. Include your daytime phone number, your Social Security number, and write Form 1040 for 2018 on the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to line 23 of Form 1040).

If you have overpaid your taxes, you have two options: (1) request a full refund, or (2) apply the overpayment to your 2019 estimated tax.

STEP 11: SIGN HERE

You must sign and date the return at the bottom of page 2. If you are filing a joint return, your spouse must also sign the return. In the "your occupation" space, enter your occupation — *minister*.

Part 4. OTHER FORMS AND SCHEDULES

Schedule A

KEY POINT ***If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A (Form 1040). This section will summarize the itemized deductions.***

STEP 1: MEDICAL AND DENTAL EXPENSES (LINES 1–4)

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 7.5 percent of your adjusted gross income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 7.5 percent test. Reimbursements include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, the doctor, or the hospital.

TAX PLANNING INFORMATION

Under the Tax Cuts and Jobs Act, the medical expense deduction in 2018 is available for expenses over 7.5% of your adjusted gross income. Beginning in 2019, the itemized deduction decreases to expenses in excess of 10% of adjusted gross income.

The following expenses ARE deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay and contributions you make under your employer health coverage (do not include amounts paid to health sharing arrangements)
- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- Medicare B premiums you pay
- Medicare D premiums you pay
- Medicare Supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2018, the standard mileage rate for medical travel was 18 cents per mile (it increases to 20 cents for 2019)
- Medicines and drugs requiring a prescription, and insulin
- The portion of a life-care fee or founder's fee paid either monthly or in a lump sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

The following items are NOT deductible as medical expenses:

- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Nonprescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trip for general improvement of health
- Most cosmetic surgery

STEP 2: TAXES YOU PAID (LINES 5–7)

In the past, individuals were permitted a deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. These taxes were

- state and local real property taxes,
- state and local personal property taxes, and
- state and local income taxes.

At the election of the taxpayer, an itemized deduction may be taken for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes. This provision was added to address the unequal treatment of taxpayers in the seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

The Tax Cuts and Jobs Act allows taxpayers to claim an itemized deduction of up to $10,000 ($5,000 for married taxpayer filing a separate return) for the aggregate of

- state and local property taxes, and
- state and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year.

The new rules apply to taxable years 2018 through 2025.

STEP 3: INTEREST YOU PAID (LINES 8–10)

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer's principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.

Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and which secures the residence. The maximum amount treated as acquisition indebtedness is $1 million ($500,000 in the case of a married person filing a separate return). Acquisition indebtedness also includes indebtedness from the refinancing of other acquisition indebtedness but only to the extent of the amount (and term) of the refinanced indebtedness. For example, if the taxpayer incurs $200,000 of acquisition indebtedness to acquire a principal residence and pays down the debt to $150,000, the taxpayer's acquisition indebtedness with respect to the residence cannot thereafter be increased above $150,000 (except by indebtedness incurred to substantially improve the residence).

Home equity indebtedness is indebtedness (other than acquisition indebtedness) secured by a qualified residence. In order for interest related to home equity indebtedness to be considered as qualified residence interest, the proceeds must be used to buy, build or substantially to improve the residence that secures the loan. (Prior law did not restrict the use of the proceeds, but limited the total debt to $100,000.)

The Tax Cuts and Jobs Act provides that, in the case of taxable years beginning after December 31, 2017, and beginning before January 1, 2026, a taxpayer may treat no more than $750,000 as qualified residence loans including acquisition indebtedness and qualifying home equity indebtedness ($375,000 in the case of married taxpayers filing separately). In the case of acquisition indebtedness incurred before December 15, 2017, this limitation is $1,000,000 ($500,000 in the case of married taxpayers filing separately).

The term "points" is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is only for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if all of the following requirements are satisfied:

1) Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)

2) Paying points is an established business practice in the area where the loan was made.

3) The points paid were not more than the points generally charged in that area.

4) You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.

5) The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.

6) The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.

7) You use your loan to buy or build your main home.

8) The points were computed as a percentage of the principal amount of the mortgage.

9) The amount is clearly shown on the settlement statement (such as the Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller's.

STEP 4: GIFTS TO CHARITY (LINES 11–14)

Cash contributions to churches, schools, and most other public charities, that are U.S. organizations, are deductible up to 60 percent of adjusted gross income. Contributions of property are subject to different limitations. See IRS Publication 526. Contributions of cash or checks are reported on line 11, while contributions of noncash property are reported on line 12. If you do not itemize deductions, you cannot deduct any of your charitable contributions.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile (for 2018 and 2019). Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. There are two ways to do this.

Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A, (A letter acknowledging the individual's service should be obtained from the charity). Or, these individuals could provide their church or charity with a travel report substantiating all travel expenses. In such a case, the church or charity could issue the individual a charitable contribution receipt for the total amount of the substantiated travel expenses. Travel expenses that can be receipted include airfare, lodging, meals and incidental expenses.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel.

Example

Pastor J goes on a trip to Europe. She is in Europe for 10 days and conducts one-hour worship services on two of those days. Pastor J will not be able to claim a charitable contribution deduction for the travel expenses that she incurs in making this trip. The same rule would apply if Pastor J's spouse or children go along on the trip.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity — it is deductible in the year the check is mailed (and postmarked), even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60 percent of adjusted gross income. In some cases, contributions that exceed these limits can be carried over and claimed in future years. Some charitable contributions are limited to 20 percent or 30 percent of adjusted gross income, depending on the recipient and the form of the contribution.

Designated contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes. Designated contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than $250 may be substantiated by a canceled check or a receipt from the charity. Special rules govern the substantiation of individual contributions of cash or property of $250 or more. The donor must substantiate these contributions with a qualifying receipt from the charity including a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the supplement to this guide entitled *Federal Reporting Requirements for Churches.*

If you contribute property that you value at $500 or more, you must include a completed Form 8283 with your Form 1040. Complete only section A if the value claimed is $500 or more but less than $5,000. If you claim a deduction of more than $5,000 for a contribution of noncash property (other than publicly traded securities), then you must obtain a qualified appraisal of the property and include a qualified appraisal summary (Section B of Form 8283) with your Form 1040.

Special rules apply to donations of cars, boats, and planes. See the instructions to IRS Form 1098-C for details.

KEY POINT ***The Tax Court ruled that a donor who contributed property worth more than $10,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute as to the value of the property, because he failed to attach a qualified appraisal summary (Form 8283) to the tax return on which the contribution was claimed.***

STEP 5: CASUALTY AND THEFT LOSSES (LINE 15)

Under prior law, a taxpayer could claim an itemized deduction for any loss sustained during the taxable year, not compensated by insurance or otherwise. For individual taxpayers, deductible losses had to be incurred in a trade or business or other profit-seeking activity or consist of property losses arising from fire, storm, shipwreck, or other casualty, or from theft. Personal casualty or theft losses were deductible only if they exceeded $100 per casualty or theft. In addition, aggregate net casualty and theft losses were deductible only to the extent they exceeded 10 percent of an individual taxpayer's adjusted gross income.

The Tax Cuts and Jobs Act temporarily modifies the deduction for personal casualty and theft losses. Taxpayers may claim a personal casualty loss (subject to the limitations described above) only if the loss was attributable to a disaster declared by the President under the Disaster Relief and Emergency Assistance Act.

The above-described limitation is effective for losses incurred in taxable years 2018 through 2025.

NOTE: Job expenses and most other miscellaneous deductions

Under prior law, individuals could claim itemized deductions for certain miscellaneous expenses. Certain of these expenses were not deductible unless, in aggregate, they exceeded two percent of the taxpayer's adjusted gross income. The deductions described below were subject to the aggregate two percent floor:

- Appraisal fees for a casualty loss or charitable contribution
- Casualty and theft losses from property used in performing services as an employee
- Clerical help and office rent in caring for investments
- Hobby expenses, but generally not more than hobby income
- Investment fees and expenses
- Safe deposit box rental fees, except for storing jewelry and other personal effects
- Trustee's fees for an IRA, if separately billed and paid
- Tax preparation expenses
- Unreimbursed employee business expenses (see below)
- Job search expenses in the taxpayer's present occupation
- Licenses and regulatory fees
- Passport fees for a business trip
- Tools and supplies used in the taxpayer's work

Unreimbursed employee business expenses subject to the two percent AGI floor included such items as:

- overnight out-of-town travel
- local transportation
- meals (subject to a 50 percent AGI floor)
- entertainment (subject to a 50 percent AGI floor)
- home office expenses
- business gifts
- dues to professional societies
- work-related education
- work clothes and uniforms if required and not suitable for everyday use
- malpractice insurance; and
- subscriptions to professional journals and trade magazines related to the taxpayer's work

The Tax Cuts and Jobs Act suspends all miscellaneous itemized deductions that are subject to the two percent floor under present law. As a result, taxpayers may not claim the above-listed items as itemized deductions for the taxable years to which the suspension applies.

This provision is effective for taxable years 2018 through 2025 unless extended by Congress.

The elimination of an itemized deduction for most expenses, including unreimbursed employee business expenses, will hit some clergy hard. Some have suggested that this impact can be minimized if a church reimburses employees business expenses under an accountable expense reimbursement arrangement. To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

1) Expenses must have a business connection — that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
2) Employees are only reimbursed for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
3) (Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4) The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a "reimbursement requirement" in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

The basis for this workaround is the fact that while the Tax Cuts and Jobs Act eliminated "all miscellaneous itemized deductions that are subject to the two percent floor under present law" (including unreimbursed employee business expenses), it did not modify or repeal section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan (defined above).

Schedule B

Schedule B is used to report taxable interest income and dividend income of more than $1,500.

STEP 1: INTEREST INCOME (LINES 1–4)

List (on line 1) the name of each institution or individual that paid you taxable interest if you received more than $1,500 of taxable interest in 2018. Be sure the interest you report on line 1 corresponds to any Form 1099-INT you received from such institutions. Do not include tax-exempt interest. Interest income is carried over to line 2b of Form 1040.

STEP 2: DIVIDEND INCOME (LINES 5–6)

List (on line 5) the name of each institution that paid you dividends if you received more than $1,500 in dividends in 2018. Be sure the dividends you report on line 1 correspond to any Form 1099-DIV you received from such institutions. Dividend income is carried over to line 3b of Form 1040.

STEP 3: FOREIGN ACCOUNTS AND FOREIGN TRUSTS (LINES 7–8)

Be sure to complete this part of the schedule if you had more than $1,500 of either taxable interest or dividends.

Schedule C

KEY POINT ***Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on line 1 of Form 1040 and receive a Form W-2 from the church. They do not report their salary as self-employment earnings on Schedule C.***

KEY POINT ***Use Schedule C to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches, and fees received directly from church members for performing personal services, such as weddings and funerals.***

Recommendation
Some ministers are eligible to use the simpler Schedule C-EZ.

STEP 1: INTRODUCTION

Complete the first several questions on Schedule C. Ministers should list code 541990 on line B, since this is the code the IRS uses in a clergy tax illustration in Publication 517. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as traveling evangelists.

STEP 2: INCOME (LINES 1–7)

Report on line 1 your gross income from your self-employment activity.

STEP 3: EXPENSES (LINES 8–27)

Warning. Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on Schedule C by ministers who do not have enough itemized deductions to use Schedule A. This advantage is often illusory. Most ministers, if audited by the IRS, would be reclassified as employees and their Schedule C deductions disallowed. This could result in substantial additional taxes, penalties, and interest. The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement.

Report any business expenses associated with your self-employment earnings on lines 8 through 27. For example, if you incur transportation, travel or other expenses in the course of performing self-employment activities, you deduct these expenses on lines 8 through 27 of Schedule C.

KEY POINT *The Tax Cuts and Jobs Act of 2017 provides that no deduction is allowed with respect to (1) an activity generally considered to be entertainment, amusement or recreation, (2) membership dues with respect to any club organized for business, pleasure, recreation, or other social purposes, or (3) a facility or portion thereof used in connection with any of the above items. Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For amounts incurred and paid after December 31, 2017 and until December 31, 2025, the Tax Cuts and Jobs Act expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and for the convenience of the employer. This new law does not affect the taxation of reimbursement of entertainment expenses. As long as the church has adopted and followed an accountable expense reimbursement plan, the minister does not include reimbursement of entertainment expenses in his taxable income. Since self-employed ministers list only their net self-employment earnings (that is, after deducting all business and professional expenses) as a component of gross income on line 6 of Form 1040 (line 7 if adjustments) they in effect are able to deduct 100 percent of their business and professional expenses even though they cannot deduct business expenses as an itemized deduction on Schedule A.*

KEY POINT *IIn the past, one of the reasons the audit rate was higher for self-employed taxpayers was that only 30 percent of all taxpayers had sufficient itemized expenses to use Schedule A. If the IRS could reclassify taxpayers from self-employed to employee status, it generated more tax dollars since only 30 percent of taxpayers could itemize deductions on Schedule A. Business expenses that could have been claimed by a self-employed taxpayer on Schedule C were lost if a taxpayer was reclassified as an employee and had insufficient expenses to itemize on Schedule A.*

Report self-employment income from Schedule C on Schedule 1, line 12, and carry over this and other items of additional income reported on Schedule 1 to line 6 of Form 1040 (line 7 if you are claiming adjustments).

Schedule C-EZ

The IRS has released a simpler form of Schedule C that can be used by some people with self-employment earnings. The new Schedule C-EZ can be used instead of Schedule C if you meet all of these requirements:

- You had business expenses associated with your trade or business of $5,000 or less in 2018.
- You use the cash rather than the accrual method of accounting.
- You did not have an inventory at any time during the year.
- You did not have a net loss from your trade or business.
- You had only one business as a sole proprietor.
- You had no employees.
- You do not use Form 4562 to compute a depreciation deduction with regard to your trade or business.
- You do not claim a deduction for the business use of your home.

Many ministers who report their church compensation as employees will be able to use this form to report small amounts of self-employment earnings they receive during the course of a year as honoraria for occasional guest speaking in other churches or as fees received directly from church members for services rendered on their behalf (for example, marriages and funerals).

Schedule SE

KEY POINT ***Use Schedule SE to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (Form 4361). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay self-employment taxes, and not Social Security and Medicare ("FICA") taxes, with respect to compensation from such services.***

KEY POINT ***Ministers who have received IRS approval of an application for exemption from self-employment taxes (Form 4361) do not pay self-employment taxes on compensation received for their ministerial services. They do not use Schedule SE.***

STEP 1: SECTION A (LINE 2)

Most ministers use the short Schedule SE rather than the long Schedule SE. This means that they complete Section A on page 1 of the schedule rather than Section B on page 2.

Ministers report their net self-employment earnings on line 2 of Section A. This amount is computed as follows:

Add the following to the church salary:

- other items of church income (including taxable fringe benefits)
- fees you receive for marriages, baptisms, funerals, masses, etc.
- self-employment earnings from outside businesses
- annual rental value of a manse, including utilities paid by church (unless you are retired)
- a housing allowance (unless you are retired)
- business expense reimbursements (under a nonaccountable plan)
- the value of meals served on the church's premises for the convenience of the employer
- any amount a church pays toward your income tax or self-employment tax

And then deduct the following:

- most income tax exclusions other than meals or lodging furnished for the employer's convenience, and the foreign earned income exclusion
- annual fair rental value of a manse provided to you after you retire
- housing allowance provided to you after you retire
- contributions by your church to a tax-sheltered annuity plan set up for you, including any salary reduction contributions (elective deferrals) that are not included in your gross income
- pension payments or retirement allowances you receive for your past ministerial services

Unreimbursed, and non-accountable reimbursed, expenses. The clear implication of the tax code and IRS Revenue Ruling 80-110 is that unreimbursed business expenses, and reimbursed business expenses under a non-accountable plan, are deductible by pastors in computing their self-employment tax liability, even if they are not able to deduct these expenses in computing their income tax liability. This understanding is clearly reflected in IRS Publication 517.

This position is also reflected in the following statement in the instructions to Schedule SE: "If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are not deductible as an itemized deduction for income tax purposes. However, when figuring SE tax, subtract on line 2 the allowable expenses from your self-employment earnings and attach an explanation."

STEP 2: SECTION A (LINE 4)

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65 percent, which is half the Social Security and Medicare tax paid by employers and employees. To do this, multiply net earnings from self-employment times 0.9235 on line 4. Self-employment taxes are paid on the reduced amount.

STEP 3: SECTION A (LINE 5)

The self-employment tax for 2018 is computed on this line. The self-employment tax rate for 2018 is 15.3 percent, which consists of the following two components:

1) a Medicare hospital insurance tax of 2.9 percent, and
2) an old-age, survivor and disability (Social Security) tax of 12.4 percent.

For 2018, the 2.9 percent Medicare tax applied to all net earnings from self-employment regardless of amount. The 12.4 percent Social Security tax applies to only the first $128,400 of net self-employment earnings.

Form 2106

KEY POINT ***In the past Form 2106 was used by employees to compute employee business expenses claimed on Schedule A. For most taxpayers this form is now obsolete because of the suspension of an itemized deduction for employee business expenses on Schedule A. Form 2016 is now used only by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses.***

Part 5. **RETAIN FOR YOUR RECORDS**

This letter provides information for retired ministers and ministers receiving pension or disability benefits. Please read and keep this letter with your 2018 tax papers should the IRS select your return for audit and require you to substantiate your exclusion. Do not file this letter with your return.

THE BOARD OF PENSIONS
OF THE PRESBYTERIAN CHURCH (U.S.A.)

January 2019

Dear Minister,

If you are retired or disabled, all or part of the Benefits Plan pension, disability, or retirement savings benefits that you received in 2018 may be excludable as housing allowance from your gross income for federal income tax purposes, subject to certain provisions established by federal tax laws. (Surviving covered partners and retired lay employees do not qualify for this exclusion; members should plan for this contingency.)

If you are eligible for an exclusion, as defined above, and own or rent your home, the tax laws limit the exclusion to the smaller of:

a) the amount designated in advance by the Board of Pensions as a housing allowance;

b) the actual amount spent by you for housing-related expenses (housing, utilities, maintenance, repairs); or

c) the fair rental value of the home, including furnishings and utilities.

If you are eligible for an exclusion and live rent free in a church-owned manse, the IRS limits the exclusion to the smaller of a) or b), above.

You should maintain records to substantiate the exclusion you claim.

The IRS requires that the housing allowance exclusion be designated in advance of the tax reporting year for which it applies. To satisfy this requirement, the Executive Committee of the Board of Directors, acting "ad interim" for The Board of Pensions of the Presbyterian Church (U.S.A.), at its September 14, 2017, meeting designated for the calendar year 2018 that 100 percent of pension, disability, and Retirement Savings Plan benefits distributed by the Board of Pensions to eligible ministers and commissioned ruling elders would constitute a housing allowance, provided that such allowance did not exceed the home's fair rental value, including furnishings and appurtenances, such as a garage, plus the cost of utilities and any other applicable tax law limits.

Refer to this year's Tax Guide for Ministers, published by the Board of Pensions and also available through Benefits Connect on pensions.org; talk with your tax adviser or refer to IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers,* for further information.

Sincerely,

Michael F. Fallon Jr.
Executive Vice President & Chief Financial Officer

Part 6. COMPREHENSIVE EXAMPLES AND FORMS

EXAMPLE ONE: ACTIVE MINISTER

Note: This example is based on an illustrated example contained at the end of IRS Publication 517. Because the 2018 version of IRS Publication 517 was not available as of the date of printing and due to the major changes to tax law effective for the 2018 tax year, this example may be somewhat different than the example in the IRS Publication

Rev. John Michaels is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from SE tax. The church paid Rev. Michaels a salary of $45,000. In addition, as a self-employed person, he earned $4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling $12,000. He taught a course at the local community college, for which he was paid $3,400. Rev. Michaels owns a home next to the church. He makes a $1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled $1,450, and the real estate taxes on his home amounted to $1,750 for the year. The church paid him $1,400 per month as his manse allowance. The home's fair rental value is $1,380 per month (including furnishings and utilities).

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

Because of tax reform, certain schedules prepared by Rev. Michaels in the prior tax year are not prepared for this example. First, because unreimbursed business expenses are no longer deductible as itemized deductions for purposes of federal income tax, Schedule 2106-EZ is not prepared. Additionally, because the $14,535 remaining available itemized deductions (comprised of state and local sales taxes of $1,175, real estate taxes of $1,750, home mortgage interest of $6,810, and cash contributions of $4,800) are less than the new $24,000 standard deduction for married couples filing jointly, Schedule A is not prepared.

Form W–2 from Church

The church completed Form W–2 for Rev. Michaels as follows:

Box 1.	The church entered Rev. Michaels' $45,000 salary.
Box 2.	The church left this box blank because Rev. Michaels did not request federal income tax withholding.
Boxes 3 through 6.	Rev. Michaels is considered a self-employed person for purposes of Social Security and Medicare tax withholding, so the church left these boxes blank.
Box 14.	The church entered Rev. Michaels' total manse allowance for the year and identified it.

TurboTax® tips: Listed below are tips for ministers who use TurboTax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your Form W–2 from your church. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

1) **"Do any of these apply to this W–2?"**
Be sure to check the box that says, "Religious employment – This income was for religious employment (clergy, nonclergy, religious sect)."

2) **"About your religious employment."**
Please note that ministers fall under the category of clergy employment.

3) **"Tell us about your clergy housing." TurboTax then asks for the Manse or Housing Allowance, as well as the amount of qualifying expenses."**
The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (including furnishings and utilities), or the amount of your pay that was designated as ministerial housing allowance by your Church.

4) **"How would you like us to calculate clergy self-employment tax?"**
Please note that self-employment tax should be paid on wages and housing allowance. See Schedule SE TurboTax Tip for additional information.

Form W–2 from College

The community college gave Rev. Michaels a Form W–2 that showed the following:

Box 1.	The college entered Rev. Michaels' $3,400 salary.
Box 2.	The college withheld $272 in federal income tax on Rev. Michaels' behalf.
Boxes 3 and 5.	As an employee of the college, Rev. Michaels is subject to Social Security and Medicare withholding on his full salary from the college.
Box 4.	The college withheld $210.80 in Social Security taxes.
Box 6.	The college withheld $49.30 in Medicare taxes.

Schedule C–EZ (Form 1040)

Some of Rev. Michaels' entries on Schedule C–EZ are explained here.

Line 1.	Rev. Michaels reports the $4,000 from weddings, baptisms, and honoraria.
Line 2.	Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of $87 for marriage and family booklets and $251 for 461 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 54.5 cents by 461 miles for a total of $251. These expenses total $338 ($251 + $87). However, he cannot deduct the part of his expenses allocable to his tax-free manse allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 25% (or $85) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $85 from the $338 and enters the $253 difference on line 2.
Line 3.	He enters his net profit of $3,747 both on line 3 and on Schedule 1 (Form 1040), line 12.
Lines 4 through 8b.	Rev. Michaels fills out these lines to report information about his car.

TurboTax® tips: TurboTax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

Schedule SE (Form 1040)

After Rev. Michaels prepares Schedule C–EZ, he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule which tells him he can use Section A — Short Schedule SE to figure his self-employment tax. Rev. Michaels is a minister, so his salary from the church is not considered church employee income. Thus, he does not have to use Section B — Long Schedule SE. He fills out the following lines in Section A.

Line 2.	Rev. Michaels attaches a statement (see Attachment 2, later) that explains how he figures the amount ($63,826) he enters here. The calculation in Attachment 2 includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly no longer deductible on Schedule A as itemized deductions for federal income tax purposes, there is still some ambiguity as of the date of this writing as to whether these expenses remain deductible for self-employment tax purposes. Based on the commentary on the top of page 30 and the underlying ruling discussed therein, the author has prepared this example assuming these expenses are deductible against self-employment earnings. Ministers should consult with their personal tax advisors regarding the deductibility of these expenses for purposes of self-employment tax on their 2018 Form 1040, in light of the developing nature of guidance in this area as of the date of this writing. Rev. Michaels records show that he drove 2,600 miles. He multiplies miles driven by the mileage rate of 54.5 cents. The combined result is $1,417. Additionally, Rev. Michaels paid for $219 of professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were $1,636. After including the $85 of Schedule C-EZ expenses allocable to tax-free income, the total deductions against self-employment income is $1,721.
Line 4.	He multiplies $63,826 by .9235 to get his net earnings from self-employment ($58,943).
Line 5.	The amount on line 4 is less than $128,400, so Rev. Michaels multiplies the amount on line 4 ($58,943) by .153 to get his self-employment tax of $9,018. He enters that amount here and on Schedule 4 (Form 1040), line 57 and 64.
Line 6.	Rev. Michaels multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of $4,509. He enters that amount here and on Schedule 1 (Form 1040), line 27.

TurboTax® tips: The software asks about self-employment tax on clergy wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the SE tax). Please note that the software does not appear to automatically reduce self-employment wages by the business expenses allocated to tax free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the "Business Taxes" section, and selecting "Self-Employment Tax." Choose "Make Adjustments," and enter in the "Ministerial Business Expenses" item the additional expenses that were allocable to tax-free income ($1,721 in this example – see Attachment 2).

Form 1040, Schedule 1 (Form 1040), Schedule 4 (Form 1040), and Schedule 5 (Form 1040)

After Rev. Michaels prepares the above schedules, he fills out Form 1040, along with Schedules 1 through 5 to the extent required. He files a joint return with his wife. First he fills out Form 1040, Page 1 and completes the appropriate lines for his filing status and dependents. Then, he fills out the rest of the forms as follows:

Form 1040, Page 2, Line 1.

Rev. Michaels reports $48,640. This amount is the total of his $45,000 church salary, $3,400 college salary, and $240, the excess of the amount designated and paid to him as a manse allowance over the lesser of his actual expenses and the fair rental value of his home (including furnishings and utilities). The two salaries were reported to him in Box 1 of the Forms W-2 he received.

Schedule 1 (Form 1040), Line 12.

He reports his net profit of $3,747 from Schedule C–EZ, line 3. Since no other amounts are reported on Schedule 1 (Form 1040), Lines 1-21, he also reports this amount on Line 22, and caries the figure to the blank space on Form 1040, Page 2, line 6.

Form 1040, Page 2, Line 6.

Rev. Michaels adds Form 1040, Page 2, line 1 and the amount reported on the blank space on Form 1040, Page 2, line 6, and enters the total ($52,387) on line 6.

Form 1040, Page 2, Line 7.

Because Rev. Michaels has reported deductible self-employment tax on Schedule 1 (Form 1040) Line 27, Rev. Michaels goes to Schedule 1 (Form 1040) and completes the bottom section of the form. Since there are no other amounts listed on lines 23-33, Rev. Michaels reports $4,509 on Line 36 and subtracts this amount from the amount reported on Form 1040, Page 2, Line 6. The result ($47,878) is entered on Form 1040, Page 2, Line 7. This is his adjusted gross income.

Form 1040, Page 2, Line 8.

He enters the standard deduction for married couples filing jointly ($24,000) on Line 8.

Form 1040, Page 2, Line 10.

Subtract line 8 from line 7. This is his taxable income.

Form 1040, Page 2, Line 11a and Line 11.

Rev. Michaels uses the tax tables in the 2018 Form 1040 instructions to determine his applicable tax and enters the amount ($2,484) on the space provided on Line 11a and on Line 11.

Form 1040, Page 2, Line 12a.

The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the Child Tax Credit Worksheet (not shown) contained in the Form 1040 general instructions. He enters the $2,000 credit. (Note: The Michaels are not required to attach Schedule 8812 to claim the child tax credit since they are not eligible for the additional child tax credit and their daughter does not have an individual taxpayer identification number (ITIN). The IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for social security numbers (SSNs). Since Jennifer has a SSN, she is not required to obtain an ITIN and therefore Schedule 8812 is not applicable.)

Form 1040, Page 2, Line 14 and Schedule 4 (Form 1040).

Rev. Michaels completes Schedule 4 (Form 1040). Since the only amount reported on Schedule 4 (Form 1040) is his self-employement tax from Schedule SE, he reports the amount ($9,018) on Schedule 4 (Form 1040), Line 64, and on Form 1040, Page 2, line 14.

Form 1040, Page 2, Line 16.

He enters the federal income tax withheld shown in Box 2 of his Form W-2 from the college.

Form 1040, Page 2, Line 17 and Schedule 5 (Form 1040).

Rev. Michaels enters the $12,000 estimated tax payments he made for the year on Schedule 5 (Form 1040), Line 66. Since there are no other amounts reported on Schedule 5 (Form 1040), he reports the amount on Schedule 5 (Form 1040), Line 75, and also enters the amount on the blank space provided beside Schedule 5 on Line 17 and on Line 17 itself.

a Employee's social security number	011-00-1111
OMB No. 1545-0008	Safe, accurate, FAST! Use IRS e-file. Visit the IRS website at www.irs.gov/efile
b Employer identification number (EIN)	00-0246810
c Employer's name, address, and ZIP code	First United Church 1042 Main Street Hometown, Texas 77099
d Control number	
e Employee's first name and initial / Last name / Suff.	John E. Michaels 1040 Main Street Hometown, Texas 77099
f Employee's address and ZIP code	
1 Wages, tips, other compensation	45,000.00
2 Federal income tax withheld	
3 Social security wages	
4 Social security tax withheld	
5 Medicare wages and tips	
6 Medicare tax withheld	
7 Social security tips	
8 Allocated tips	
9 Verification code	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12	
12b	
12c	
12d	
13 Statutory employee / Retirement plan / Third-party sick pay	
14 Other	Parsonage Allowance $16,800
15 State / Employer's state ID number	
16 State wages, tips, etc.	
17 State income tax	
18 Local wages, tips, etc.	
19 Local income tax	
20 Locality name	

Form **W-2** **Wage and Tax Statement** 2018

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

a Employee's social security number	011-00-1111
OMB No. 1545-0008	Safe, accurate, FAST! Use IRS e-file. Visit the IRS website at www.irs.gov/efile
b Employer identification number (EIN)	00-1357913
c Employer's name, address, and ZIP code	Hometown College 40 Honor Road Hometown, Texas 77099
d Control number	
e Employee's first name and initial / Last name / Suff.	John E. Michaels 1040 Main Street Hometown, Texas 77099
f Employee's address and ZIP code	
1 Wages, tips, other compensation	3,400.00
2 Federal income tax withheld	272.00
3 Social security wages	3,400.00
4 Social security tax withheld	210.80
5 Medicare wages and tips	3,400.00
6 Medicare tax withheld	49.30
7 Social security tips	
8 Allocated tips	
9 Verification code	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12	
12b	
12c	
12d	
13 Statutory employee / Retirement plan / Third-party sick pay	
14 Other	
15 State / Employer's state ID number	
16 State wages, tips, etc.	
17 State income tax	
18 Local wages, tips, etc.	
19 Local income tax	
20 Locality name	

Form **W-2** **Wage and Tax Statement** 2018

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065.
▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

OMB No. 1545-0074

2018

Attachment Sequence No. **09A**

Name of proprietor: John E. Michaels

Social security number (SSN): 011-00-1111

Part I General Information

You may use Schedule C-EZ instead of Schedule C only if you:

- Had business expenses of $5,000 or less,
- Use the cash method of accounting,
- Did not have an inventory at any time during the year,
- Did not have a net loss from your business,
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee,

And you:

- Had no employees during the year,
- Do not deduct expenses for business use of your home,
- Do not have prior year unallowed passive activity losses from this business, and
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service
Minister

B Enter business code (see page 2) ▶ 5 4 1 9 9 0

C Business name. If no separate business name, leave blank.

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.
1042 Main Street
City, town or post office, state, and ZIP code
Hometown, Texas 77099

F Did you make any payments in 2018 that would require you to file Form(s) 1099? (see the Instructions for Schedule C) . . . ☐ Yes ☑ No

G If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

Part II Figure Your Net Profit

1 **Gross receipts. Caution:** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see *Statutory employees* in the instructions for Schedule C, line 1, and check here . . . ▶ ☐ | **1** | 4,000

2 **Total expenses** (see page 2). If more than $5,000, you **must** use Schedule C . . . | **2** | 253 *

3 **Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Schedule 1 (Form 1040), line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13,** and **Schedule SE, line 2** (see page 2). (Statutory employees **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3.** . . . | **3** | 3,747

Part III Information on Your Vehicle.
Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 7/15/11 .

5 Of the total number of miles you drove your vehicle during 2018, enter the number of miles you used your vehicle for:

a Business 461 **b** Commuting (see page 2) 0 **c** Other 7,478

6 Was your vehicle available for personal use during off-duty hours? . . . ☑ Yes ☐ No

7 Do you (or your spouse) have another vehicle available for personal use? . . . ☑ Yes ☐ No

8a Do you have evidence to support your deduction? . . . ☑ Yes ☐ No

b If "Yes," is the evidence written? . . . ☑ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040). Cat. No. 14374D **Schedule C-EZ (Form 1040) 2018**

* See statement attached.

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are nondeductible.

		Taxable	Tax-Free	Total
Salary as a minister		$ 45,000		$ 45,000
Parsonage allowance:				
Amount designated and paid by church ($1,400 x 12)	$ 16,800			
Actual expenses				
(Mortgage $1,125 x 12, Utilities/other $1,450, Real estate taxes $1,750)	16,700			
Fair rental value of home (including furnishings and utilities) ($1,380 x 12)	16,560			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	$ 240	240		240
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			16,560	16,560
Gross income from weddings, baptisms, and honoraria		4,000		4,000
Ministerial Income		$ 49,240	$ 16,560	$ 65,800
% of nondeductible expenses: $16,560/$65,800 = 25%				

Schedule C-EZ Deduction Computation

Marriage and family booklets	$ 87
Business use of car:	
461 miles x 54.5¢	251
Unadjusted Schedule C-EZ expenses	338
Minus:	
Nondeductible part of Schedule C-EZ expenses (25% x $338)	(85)
Schedule C-EZ deductions (line 2)	$ 253

SCHEDULE SE (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► Go to *www.irs.gov/ScheduleSE* for instructions and the latest information.
► Attach to Form 1040 or Form 1040NR.

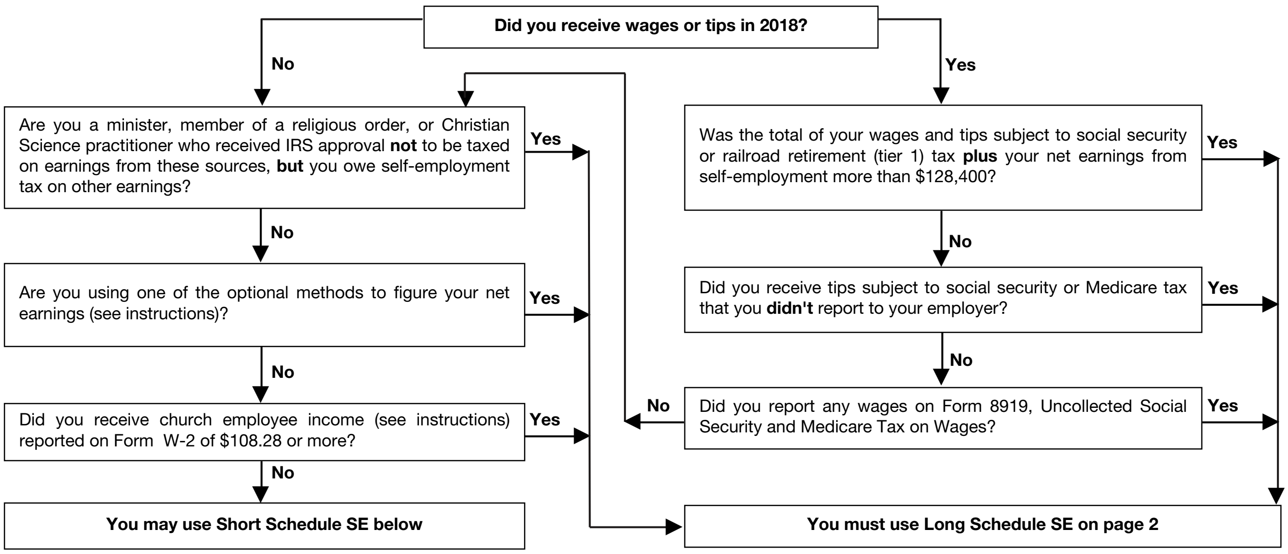
OMB No. 1545-0074
2018
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ►
John E. Michaels	011-00-1111

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	**1a**	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH	**1b**	( )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	**2**	63,826 *
3	Combine lines 1a, 1b, and 2	**3**	63,826
4	Multiply line 3 by 92.35% (0.9235). If less than $400, you don't owe self-employment tax; **don't** file this schedule unless you have an amount on line 1b . . . . . ►	**4**	58,943
	Note: If line 4 is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	**Self-employment tax.** If the amount on line 4 is: • $128,400 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55** • More than $128,400, multiply line 4 by 2.9% (0.029). Then, add $15,921.60 to the result. Enter the total here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55** . .	**5**	9,018
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (0.50). Enter the result here and on **Schedule 1 (Form 1040), line 27,** or **Form 1040NR, line 27** . — **6** — 4,509		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2018**

* See statement attached.

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ▶
John E. Michaels	011-00-1111

Section B—Long Schedule SE

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income,** see instructions. Also see instructions for the definition of church employee income.

A	If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had $400 or more of **other** net earnings from self-employment, check here and continue with Part I . . . . ▶ ☐			
1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note:** Skip lines 1a and 1b if you use the farm optional method (see instructions)	1a		
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH	1b	(	)
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note:** Skip this line if you use the nonfarm optional method (see instructions)	2		
3	Combine lines 1a, 1b, and 2	3		
4a	If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **Note:** If line 4a is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.	4a		
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . .	4b		
c	Combine lines 4a and 4b. If less than $400, **stop;** you don't owe self-employment tax. **Exception:** If less than $400 and you had **church employee income,** enter -0- and continue ▶	4c		
5a	Enter your **church employee income** from Form W-2. See instructions for definition of church employee income . . . **5a**			
b	Multiply line 5a by 92.35% (0.9235). If less than $100, enter -0-	5b		
6	Add lines 4c and 5b	6		
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2018	7	128,400	00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If $128,400 or more, skip lines 8b through 10, and go to line 11 **8a**			
b	Unreported tips subject to social security tax (from Form 4137, line 10) **8b**			
c	Wages subject to social security tax (from Form 8919, line 10) **8c**			
d	Add lines 8a, 8b, and 8c	8d		
9	Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . ▶	9		
10	Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124)	10		
11	Multiply line 6 by 2.9% (0.029)	11		
12	**Self-employment tax.** Add lines 10 and 11. Enter here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55**	12		
13	**Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (0.50). Enter the result here and on **Schedule 1 (Form 1040), line 27,** or **Form 1040NR, line 27** . **13**			

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income[1] wasn't more than $7,920, **or (b)** your net farm profits[2] were less than $5,717.

14	Maximum income for optional methods	14	5,280	00
15	Enter the **smaller** of: two-thirds (2/3) of gross farm income[1] (not less than zero) **or** $5,280. Also include this amount on line 4b above	15		

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits[3] were less than $5,717 and also less than 72.189% of your gross nonfarm income,[4] **and (b)** you had net earnings from self-employment of at least $400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

16	Subtract line 15 from line 14	16		
17	Enter the **smaller** of: two-thirds (2/3) of gross nonfarm income[4] (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above	17		

[1] From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

[2] From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

[3] From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

[4] From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Schedule SE (Form 1040) 2018

Attachment 2. Attachment to Schedule SE (Form 1040)

Church wages		$ 45,000
Parsonage allowance		16,800
Net profit from Schedule C-EZ		3,747
		65,547
Less:		
Schedule C-EZ expenses allocable to tax-free income	$ 85	
Ministerial employee unreimbursed business expenses		
Car expenses for church business:		
2,600 miles x 54.5¢	1,417	
Publications and booklets	219	(1,721)
Net Self-Employment Income		
Schedule SE, Section A, line 2		$ 63,826

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☑ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
John E.	Michaels	011-00-1111

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Susan R	Michaels	011-00-2222

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☑ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Presidential Election Campaign (see inst.) ☐ You ☐ Spouse
1040 Main Street		

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.
Hometown, Texas 77099

If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
Jennifer	Michaels	011-00-3333	Daughter	☑	☐
				☐	☐
				☐	☐
				☐	☐

Sign Here
Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
John Michaels	2/15/19	Minister	
Spouse's signature. If a joint return, both must sign.	**Date**	**Spouse's occupation**	**If the IRS sent you an Identity Protection PIN, enter it here (see inst.)**
Susan Michaels	2/15/19	Homemaker	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Form 1040 (2018) Page **2**

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	48,640
	2a	Tax-exempt interest 2a ___ b Taxable interest	2b	
	3a	Qualified dividends 3a ___ b Ordinary dividends	3b	
	4a	IRAs, pensions, and annuities 4a ___ b Taxable amount	4b	
	5a	Social security benefits 5a ___ b Taxable amount	5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 3,747	6	52,387
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	47,878
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)	8	24,000
	9	Qualified business income deduction (see instructions)	9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	23,878
	11	a Tax (see inst.) 2,484 (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐ ___) b **Add** any amount from Schedule 2 and check here ☐	11	2,484
	12	a Child tax credit/credit for other dependents 2,000 b **Add** any amount from Schedule 3 and check here ☐	12	2,000
	13	Subtract line 12 from line 11. If zero or less, enter -0-	13	484
	14	Other taxes. Attach Schedule 4	14	9,018
	15	Total tax. Add lines 13 and 14	15	9,502
	16	Federal income tax withheld from Forms W-2 and 1099	16	212
	17	Refundable credits: a EIC (see inst.) ___ b Sch. 8812 ___ c Form 8863 ___ **Add** any amount from Schedule 5 12,000	17	12,000
	18	Add lines 16 and 17. These are your total payments	18	12,212
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	2,710
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ☐	20a	
Direct deposit? See instructions.	▶ b	Routing number ___ ▶ c Type: ☐ Checking ☐ Savings		
	▶ d	Account number ___		
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21 2,710		
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶	22	
	23	Estimated tax penalty (see instructions) ▶ 23		

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

SCHEDULE 1 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2018

Attachment Sequence No. **01**

Name(s) shown on Form 1040	Your social security number
John E. & Susan R. Michaels	011-00-1111

Additional Income

1–9b	Reserved	1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	3,747
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Reserved	15b	
16a	Reserved	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Reserved	20b	
21	Other income. List type and amount ▶	21	
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	3,747

Adjustments to Income

23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26			
27	Deductible part of self-employment tax. Attach Schedule SE	27	4,509		
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid **b** Recipient's SSN ▶	31a			
32	IRA deduction	32			
33	Student loan interest deduction	33			
34	Reserved	34			
35	Reserved	35			
36	Add lines 23 through 35			36	4,509

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Active Minister: Schedule 4 (Form 1040)

SCHEDULE 4 (Form 1040)
Department of the Treasury Internal Revenue Service

Other Taxes

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 | 2018 | Attachment Sequence No. **04**

Name(s) shown on Form 1040: John E. & Susan R. Michaels | Your social security number: 011-00-1111

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	9,018
58	Unreported social security and Medicare tax from: Form a ☐ 4137 b ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	59	
60a	Household employment taxes. Attach Schedule H	60a	
b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions)	61	
62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
63	Section 965 net tax liability installment from Form 965-A — 63		
64	Add the amounts in the far right column. These are your **total other taxes.** Enter here and on Form 1040, line 14	64	9,018

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71481R **Schedule 4 (Form 1040) 2018**

Active Minister: Schedule 5 (Form 1040)

SCHEDULE 5 (Form 1040)
Department of the Treasury Internal Revenue Service

Other Payments and Refundable Credits

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 | 2018 | Attachment Sequence No. **05**

Name(s) shown on Form 1040: John E. & Susan R. Michaels | Your social security number: 011-00-1111

Other Payments and Refundable Credits

65	Reserved	65	
66	2018 estimated tax payments and amount applied from 2017 return	66	12,000
67a	Reserved	67a	
b	Reserved	67b	
68–69	Reserved	68–69	
70	Net premium tax credit. Attach Form 8962	70	
71	Amount paid with request for extension to file (see instructions)	71	
72	Excess social security and tier 1 RRTA tax withheld	72	
73	Credit for federal tax on fuels. Attach Form 4136	73	
74	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	74	
75	Add the amounts in the far right column. These are your total **other payments and refundable credits.** Enter here and include on Form 1040, line 17	75	12,000

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71482C **Schedule 5 (Form 1040) 2018**

EXAMPLE TWO: RETIRED MINISTER

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2018, Rev. Green received $15,000 in annuity income, all of which was designated in advance by the Board of Pensions as a housing allowance. Rev. Green had housing expenses of $13,000. The home's fair rental value is $1,200 per month (including furnishings and utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received $12,000 of Social Security benefits in 2018, and his wife received $6,000. None of this income is taxable, however, because the Green's income is not enough to expose their Social Security benefits to tax.

In 2018, Rev. Green received $2,000 from occasional guest preaching engagements. He incurred $586 in expenses as a result of these activities ($436 of travel expenses, and $150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see Schedule SE), since it represents compensation from active ministry.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that the Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from the Board of Pensions

The Board of Pensions completed Form 1099-R for Rev. Green as follows:

Box 1.	The $15,000 pension income Rev. Green receives from the Board of Pensions.
Box 2b.	Taxable amount not determined. The Board of Pensions designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities).
Box 7.	Rev. Green's pension income is a normal distribution.

Schedule C–EZ (Form 1040)

Some of Rev. Green's entries on Schedule C–EZ are explained here:

Line 1.	Rev. Green reports the $2,000 from occasional guest preaching engagements.
Line 2.	Rev. Green reports his expenses related to the line 1 amount. He drove 800 miles of business use of his car, in connection with guest preaching. Rev. Green used the standard business mileage rate to figure his car expense. He multiplied the standard mileage rate of 54.5 cents by 800 miles for a total of $436. He also incurred $75 ($150 x 50% nondeductible) in business meal expenses (i.e., non-entertainment-related, see italicized note below) in connection with the guest preaching for total expenses of $511. However, he cannot deduct the part of his expenses allocable to his tax-free manse allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 76% (or $388) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $388 from the $511 and enters the $123 difference on line 2. ***Note**: Due to changes in the tax law as a result of recent tax reform, there are certain scenarios where food and beverage expenses incurred in connection with entertainment may not be deductible. Business-related meal expenses remain 50% deductible. In this example, the author has assumed the meal expenses incurred in connection with the guest preaching were 50% deductible business meal expenses. As of the date of this writing, the IRS is in the process of drafting formal guidance to clarify when food and beverage expenses would be considered entertainment expenses and therefore not deductible by taxpayers. Interim guidance has been provided in IRS Notice 2018-76. Taxpayers should consult with their personal tax advisors regarding the deductibility of food and beverage expenses on Schedule C-EZ in light of recent tax reform.*
Line 3.	He enters his net profit of $1,877 both on line 3 and on Schedule 1 (Form 1040), line 12.
Lines 4 through 8b.	Rev. Green fills out these lines to report information about his car.

TurboTax® tips: Listed below are tips for ministers who use TurboTax to complete their returns. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

TurboTax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

Schedule SE (Form 1040)

After Rev. Green prepares Schedule C-EZ he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule, which tells him he can use Section A – Short Schedule SE to figure his self-employment tax. Ministers are not church employees under this definition. He fills out the following lines in Section A:

Line 2.	Rev. Green attaches a statement (see Attachment 2, later) that calculates his net profit of $1,489 and he enters that amount here.
Line 4.	He multiplies the $1,489 by .9235 to get his net earnings from self-employment ($1,375).
Line 5.	The amount on line 4 is less than $128,400, so Rev. Green multiplies the amount on line 4 ($1,375) by .153 to get his self-employment tax of $210. He enters that amount here and on Schedule 4 (Form 1040), line 57.
Line 6.	Rev. Green multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of $105. He enters that amount here and on Schedule 1 (Form 1040), line 27.

TurboTax® tips: The software does not appear to reduce self-employment wages by the business expenses allocated to tax free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software.

Form 1040, Schedule 1 (Form 1040), and Schedule 4 (Form 1040)

After Rev. Green prepares Schedule C-EZ and Schedule SE, he fills out Form 1040, along with Schedules 1 through 5 to the extent required. Rev. Green files a joint return with his wife. First he fills out Form 1040, Page 1 and completes the appropriate lines for his filing status, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1954. Then, he fills out the rest of the form as follows:

Form 1040, Page 2, Line 4a and 4b.

Rev. Green reports his total annuity income of $15,000 on line 4a. He reports the taxable amount ($2,000) as computed on Attachment 1 (shown later) on line 4b.

Form 1040, Page 2, Line 5a and 5b.

Since none of Rev. Green's Social Security benefits are taxable, he does not report any amounts on line 5a or 5b.

Schedule 1 (Form 1040), Line 12.

He reports his net profit of $1,877 from Schedule C–EZ, line 3. Since no other amounts are reported on Schedule 1 (Form 1040), Lines 1-21, he also reports this amount on Line 22, and caries the figure to the blank space on Form 1040, Page 2, line 6.

Form 1040, Page 2, Line 6.

Rev. Green adds Form 1040, Page 2, line 4b and the amount reported on the blank space on Form 1040, Page 2, line 6, and enters the total ($3,877) on line 6.

Form 1040, Page 2, Line 7.

Because Rev. Green has reported deductible self-employment tax of $105 on Schedule 1 (Form 1040) Line 27, Rev. Green goes to Schedule 1 (Form 1040) and completes the bottom section of the form. Since there are no other amounts listed on lines 23-33, Rev. Green reports $105 on Line 36 and subtracts this amount from the amount reported on Form 1040, Page 2, Line 6. The result ($3,772) is entered on Form 1040, Page 2, Line 7. This is his adjusted gross income.

Form 1040, Page 2, Line 8.

Rev. Green enters his standard deduction of $26,600 which takes into consideration the fact he and his wife were born before January 2, 1954.

Form 1040, Page 2, Line 10.

Rev. Green has no taxable income.

Form 1040, Page 2, Line 14 and Schedule 4 (Form 1040).

Rev. Green completes Schedule 4 (Form 1040). Since the only amount reported on Schedule 4 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount ($210) on Schedule 4 (Form 1040), Line 64 on Form 1040, Page 2, line 14.

Form 1040, Page 2, Line 16.

Rev. Green did not have any income tax withheld from his pension.

Form 1040, Page 2, Line 22.

Amount Rev. Green owes to the IRS.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.
The Board of Pensions of the
Presbyterian Church (USA)
2000 Market Street
Philadelphia, PA 19103-3298
1-800-773-7752

1 Gross distribution
$ 15,000.00

2a Taxable amount
$

OMB No. 1545-0119

2018

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☒

Total distribution ☐

Copy B
Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the IRS.

PAYER'S TIN
23-1352040

RECIPIENT'S TIN
202-20-2002

3 Capital gain (included in box 2a)
$

4 Federal income tax withheld
$

RECIPIENT'S name
William K. Green

5 Employee contributions/ Designated Roth contributions or insurance premiums
$

6 Net unrealized appreciation in employer's securities
$

Street address (including apt. no.)
787 Adams Street

7 Distribution code(s)
7

IRA/ SEP/ SIMPLE ☐

8 Other
$ %

City or town, state or province, country, and ZIP or foreign postal code
Anytown, NY 10002

9a Your percentage of total distribution %

9b Total employee contributions
$

10 Amount allocable to IRR within 5 years
$

11 1st year of desig. Roth contrib.

FATCA filing requirement ☐

12 State tax withheld
$
$

13 State/Payer's state no.

14 State distribution
$
$

Account number (see instructions)

Date of payment

15 Local tax withheld
$
$

16 Name of locality

17 Local distribution
$
$

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065.
▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

OMB No. 1545-0074
2018
Attachment Sequence No. 09A

Name of proprietor: William K. Green
Social security number (SSN): 202-20-2002

Part I General Information

You may use Schedule C-EZ instead of Schedule C only if you:	• Had business expenses of $5,000 or less, • Use the cash method of accounting, • Did not have an inventory at any time during the year, • Did not have a net loss from your business, • Had only one business as either a sole proprietor, qualified joint venture, or statutory employee,	**And you:**	• Had no employees during the year, • Do not deduct expenses for business use of your home, • Do not have prior year unallowed passive activity losses from this business, and • Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service: Minister

B Enter business code (see page 2) ▶ 5 4 1 9 9 0

C Business name. If no separate business name, leave blank.

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.
787 Adams Street
City, town or post office, state, and ZIP code
Anytown, New York 10002

F Did you make any payments in 2018 that would require you to file Form(s) 1099? (see the Instructions for Schedule C) . . . ☐ Yes ☑ No

G If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

Part II Figure Your Net Profit

1	**Gross receipts. Caution:** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see *Statutory employees* in the instructions for Schedule C, line 1, and check here . . . ▶ ☐	**1**	2,000
2	**Total expenses** (see page 2). If more than $5,000, you **must** use Schedule C . . .	**2**	123 *
3	**Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Schedule 1 (Form 1040), line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13,** and **Schedule SE, line 2** (see page 2). (Statutory employees **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3.** . . .	**3**	1,877

Part III Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 7/15/2011

5 Of the total number of miles you drove your vehicle during 2018, enter the number of miles you used your vehicle for:

a Business 800 **b** Commuting (see page 2) 0 **c** Other 12,682

6 Was your vehicle available for personal use during off-duty hours? . . . ☑ Yes ☐ No

7 Do you (or your spouse) have another vehicle available for personal use? . . . ☑ Yes ☐ No

8a Do you have evidence to support your deduction? . . . ☑ Yes ☐ No

b If "Yes," is the evidence written? . . . ☑ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040). Cat. No. 14374D **Schedule C-EZ (Form 1040) 2018**

* See statement attached.

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are nondeductible.

% of Nondeductible Expenses

		Taxable	Tax-Free	Total
Parsonage allowance:				
Ministerial retirement benefits designated as housing allowance	$ 15,000			
Actual expenses	$ 13,000			
Fair rental value of home (including furnishings and utilities) ($1,200 x 12)	$ 14,400			
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	$ 2,000	$ 2,000		$ 2,000
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			13,000	13,000
Gross income from occasional guest preaching engagements		2,000		2,000
Ministerial Income		$ 4,000	$ 13,000	$ 17,000

% of nondeductible expenses: $13,000/$17,000 = 76%

Schedule C-EZ Deduction Computation

Business use of car: 800 miles x 54.5¢	$ 436
Meal expenses ($150 less 50% reduction)	75
Unadjusted Schedule C-EZ expenses	$ 511
Nondeductible part of expenses: $511 X 76%	(388)
Schedule C-EZ deductions, line 2	$ 123

None of the other deductions claimed in the return are allocable to tax-free income.

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

▶ Go to *www.irs.gov/ScheduleSE* for instructions and the latest information.
▶ Attach to Form 1040 or Form 1040NR.

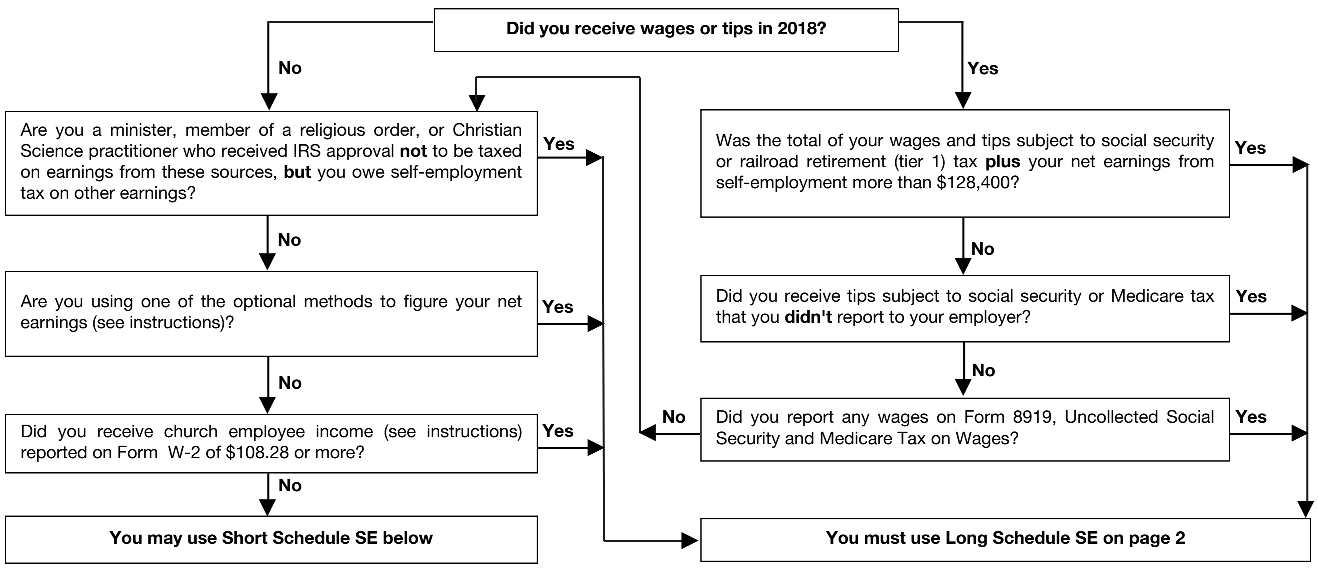
OMB No. 1545-0074
2018
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ▶
William K. Green	202-20-2002

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	**1a**	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH	**1b**	( )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	**2**	1,489 *
3	Combine lines 1a, 1b, and 2	**3**	1,489
4	Multiply line 3 by 92.35% (0.9235). If less than $400, you don't owe self-employment tax; **don't** file this schedule unless you have an amount on line 1b ▶	**4**	1,375
	Note: If line 4 is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	**Self-employment tax.** If the amount on line 4 is: • $128,400 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55** • More than $128,400, multiply line 4 by 2.9% (0.029). Then, add $15,921.60 to the result. Enter the total here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55**	**5**	210
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (0.50). Enter the result here and on **Schedule 1 (Form 1040), line 27,** or **Form 1040NR, line 27** — **6** 105		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2018**

* See statement attached.

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ▶
William K. Green	202-20-2002

Section B—Long Schedule SE

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income,** see instructions. Also see instructions for the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had $400 or more of **other** net earnings from self-employment, check here and continue with Part I . . . . ▶ ☐

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note:** Skip lines 1a and 1b if you use the farm optional method (see instructions)	1a		
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH	1b	(	)
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note:** Skip this line if you use the nonfarm optional method (see instructions)	2		
3	Combine lines 1a, 1b, and 2	3		
4a	If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3	4a		
	Note: If line 4a is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.			
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b		
c	Combine lines 4a and 4b. If less than $400, **stop;** you don't owe self-employment tax. **Exception:** If less than $400 and you had **church employee income,** enter -0- and continue ▶	4c		
5a	Enter your **church employee income** from Form W-2. See instructions for definition of church employee income . . . 5a			
b	Multiply line 5a by 92.35% (0.9235). If less than $100, enter -0-	5b		
6	Add lines 4c and 5b	6		
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2018	7	128,400	00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If $128,400 or more, skip lines 8b through 10, and go to line 11 . . . 8a			
b	Unreported tips subject to social security tax (from Form 4137, line 10) . . . 8b			
c	Wages subject to social security tax (from Form 8919, line 10) . . . 8c			
d	Add lines 8a, 8b, and 8c	8d		
9	Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶	9		
10	Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124)	10		
11	Multiply line 6 by 2.9% (0.029)	11		
12	**Self-employment tax.** Add lines 10 and 11. Enter here and on **Schedule 4 (Form 1040), line 57,** or **Form 1040NR, line 55**	12		
13	**Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (0.50). Enter the result here and on **Schedule 1 (Form 1040), line 27,** or **Form 1040NR, line 27** . . . 13			

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income[1] wasn't more than $7,920, **or (b)** your net farm profits[2] were less than $5,717.

14	Maximum income for optional methods	14	5,280	00
15	Enter the **smaller** of: two-thirds (2/3) of gross farm income[1] (not less than zero) **or** $5,280. Also include this amount on line 4b above	15		

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits[3] were less than $5,717 and also less than 72.189% of your gross nonfarm income,[4] **and (b)** you had net earnings from self-employment of at least $400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

16	Subtract line 15 from line 14	16		
17	Enter the **smaller** of: two-thirds (2/3) of gross nonfarm income[4] (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above	17		

[1] From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

[2] From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

[3] From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

[4] From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Attachment 2. Computation of Net Earnings from Self-Employment

Computation for Schedule SE (Form 1040)	
Gross income from Schedule C-EZ	$ 2,000
Less:	
Unadjusted Schedule C-EZ expenses	(511)
Net Self Employment Income, Schedule SE, Line 2	$ 1,489

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☑ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
William K.	Green	202 20 2002

Your standard deduction: ☐ Someone can claim you as a dependent ☑ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Sarah J.	Green	303 30 3003

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☑ Spouse was born before January 2, 1954 ☑ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Presidential Election Campaign (see inst.) ☐ You ☐ Spouse
787 Adams Street		

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.	If more than four dependents, see inst. and ✓ here ► ☐
Anytown, New York 10002	

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
William K Green	2/15/18	Retired Minister	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Sarah J Green	2/15/18	Retired	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

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Form 1040 (2018) Page **2**

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

Standard Deduction for—
- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest — 2a ; b Taxable interest	2b	
3a	Qualified dividends — 3a ; b Ordinary dividends	3b	
4a	IRAs, pensions, and annuities — 4a 15,000 ; b Taxable amount	4b	2,000
5a	Social security benefits — 5a ; b Taxable amount	5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 — 1,877	6	3,877
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	3,772
8	**Standard deduction or itemized deductions** (from Schedule A)	8	26,600
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	
11	**a** Tax (see inst.) ____ (check if any from: **1** ☐ Form(s) 8814 **2** ☐ Form 4972 **3** ☐ ____) **b Add** any amount from Schedule 2 and check here ▶ ☐	11	
12	**a** Child tax credit/credit for other dependents ____ **b Add** any amount from Schedule 3 and check here ▶ ☐	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	
14	Other taxes. Attach Schedule 4	14	210
15	Total tax. Add lines 13 and 14	15	210
16	Federal income tax withheld from Forms W-2 and 1099	16	
17	Refundable credits: **a** EIC (see inst.) ____ **b** Sch. 8812 ____ **c** Form 8863 ____ **Add** any amount from Schedule 5 ____	17	
18	Add lines 16 and 17. These are your total payments	18	

Refund

Direct deposit? See instructions.

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	20a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21		

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶	22	210
23	Estimated tax penalty (see instructions) ▶ 23		

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

SCHEDULE 1 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Income and Adjustments to Income

► Attach to Form 1040.
► Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2018

Attachment Sequence No. 01

Name(s) shown on Form 1040: William K. & Sarah J. Green

Your social security number: 202-20-2002

Additional Income

1–9b	Reserved		1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	1,877
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ► ☐		13	
14	Other gains or (losses). Attach Form 4797		14	
15a	Reserved		15b	
16a	Reserved		16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Reserved		20b	
21	Other income. List type and amount ►		21	
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23		22	1,877

Adjustments to Income

23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26			
27	Deductible part of self-employment tax. Attach Schedule SE	27	105		
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid **b** Recipient's SSN ►	31a			
32	IRA deduction	32			
33	Student loan interest deduction	33			
34	Reserved	34			
35	Reserved	35			
36	Add lines 23 through 35			36	105

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SCHEDULE 4
(Form 1040)

Department of the Treasury
Internal Revenue Service

Other Taxes

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. **04**

Name(s) shown on Form 1040: William K. & Sarah J. Green

Your social security number: 202-20-2002

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	210
58	Unreported social security and Medicare tax from: Form **a** ☐ 4137 **b** ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	59	
60a	Household employment taxes. Attach Schedule H	60a	
b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions)	61	
62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62	
63	Section 965 net tax liability installment from Form 965-A — 63		
64	Add the amounts in the far right column. These are your **total other taxes.** Enter here and on Form 1040, line 14	64	210

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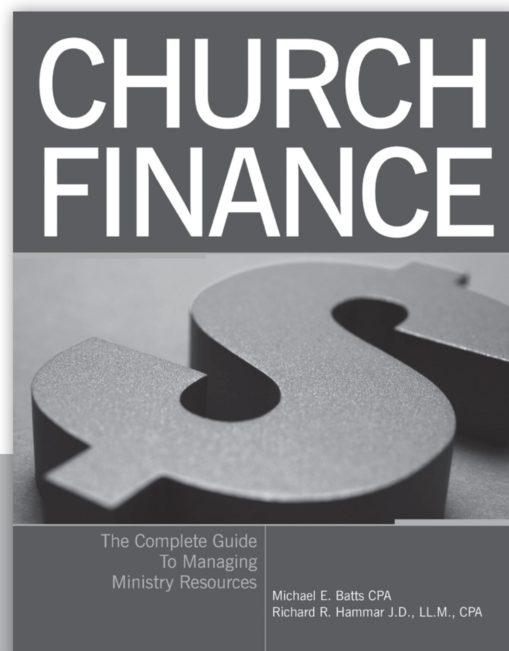

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