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CLERGY TAX BASICS & RECOMMENDATIONS FOR 2010

WHO IS A "MINISTER" FOR TAX PURPOSES? FIVE FACTORS TO CONSIDER:

1. He must be ordained, licensed, or commissioned
2. Does he administer Communion and Baptism (sometimes called the Sacraments)
3. Is he a worship leader?
4. Does he have management responsibilities?
5. Is he considered a religious leader?
6. Cannot a student, intern, choir director, youth leader, school administrator, etc. unless the above requirements are met.

FIVE TAX RULES –

1. Social Security Self-Employed status – use Schedule SE on tax return and pay SE tax quarterly
2. Eligibility for Social Security exemption (under certain circumstances)
3. Accountable Expense Reimbursement
4. Housing allowance and parsonage not subject to income tax (but subject to Social Security Tax)
5. Exempt from income tax withholding requirement (but tax must still be paid)

1. SOCIAL SECURITY SELF-EMPLOYMENT STATUS FOR MINISTERS

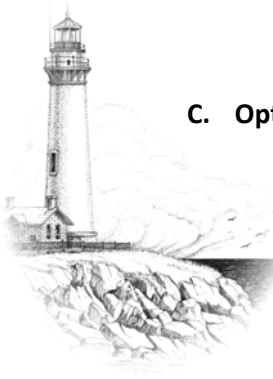
- A. Lay employees have 7.65% Social Security tax withheld; employer also pays 7.65%. Total: 15.3%
- B. Ministers pay the whole 15.3%; if church pays part (through bonus added to paycheck) or all it counts as taxable income to the minister
- C. W-2 Form (and 941 Form) must *not* show "Social Security Tax" or "Social Security Wages"
- D. Minister pays Social Security Tax quarterly to IRS; alternative: optional withholding

2. SOCIAL SECURITY EXEMPTION

A. Four Benefits of Social Security

1. Retirement Benefit – monthly retirement, as long as you live; with annual cost-of-living raises
2. Medicare Benefit – pays medical costs after you retire (part A of Medicare)
3. Disability Benefit – monthly Benefits if you're sufficiently disabled
4. Survivor Benefit – when you have children under 18

B. Cost of Social Security: 15.30% of Salary *and* Housing



C. Opting out

1. Applies only to ministry income; you're still "in the system" on other income
2. Requires that you be opposed, based on conscience or religious principles, to receiving Social Security Benefits for services performed as a minister
3. Requires IRS Form 4361; *not* filed with tax return
4. Form 4361 must be filed on time! – before April 15 of the second calendar year in which you have self-employment income from ministry. After this it's too late!
5. Exemption is irreversible; ponder carefully
6. Puts much greater burden on the pastor for financial planning for retirement, disability, life insurance, and Medicare coverage.

D. Those who "opt out" may still receive these benefits:

1. *Full* Medicare (health insurance) benefit provided as long as you have 40 quarters "paid in" to Social Security, otherwise no benefit unless you can piggyback off of your wife (assuming she has at least 40 quarters paid in).
2. *Dramatically reduced* Retirement Income Benefit available – you may qualify for higher monthly retirement income benefit if you can claim benefits under your wife (50% of her normal benefit).
3. *Reduced* or no Disability Benefit based on quarters paid in during the past 10 years
4. *Reduced* or no Survivor Benefit based on quarters paid in during the past 10 years

3. Accountable Expense Reimbursement Plan to pay or reimburse all job-related expenses. It is vital for maximum tax savings and to reduce audit risk. Business miles include driving on the job, between jobs, to business events, and to manage rental property. It does not include commuting between home and any regular place of employment.

A. Why it is needed - It's cheaper than a pay raise!

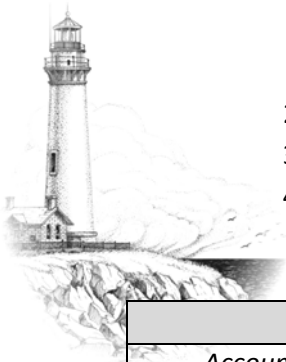
1. It saves tax
2. Simplifies tax return preparation
3. Dramatically reduces audit risk
4. Improves morale of workers

B. How to do it

1. Church funding – Ministers must stop thinking of it as *your* money!
2. Policy Statement – clarifying what expenses will be reimbursed
3. Monthly reporting of expenses – with receipts and other documentation
 - i. Auto mileage records must show date, business destination, number of miles
 - ii. IRS mileage rate in 2010 is 50¢ per business mile driven a vehicle you own.
 - iii. Church may not pay gas, tires, repairs, auto insurance etc. on top of 50¢ per mile
 - iv. Receipts are needed for non-auto expenses, except meals and entertainment under \$75

C. Is available to everyone

1. Ministers



2. Secretary, youth worker, organist, custodian, other lay workers
3. All employees of all employers
4. Even Volunteers: Church treasurers, Sunday School teachers, office workers, etc.
However, volunteers' mileage reimbursement is limited to the charitable rate (14¢ per mile in 2010).

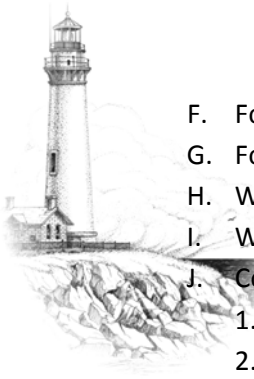
	Ministry Expense Reimburse	Housing Allowance
<i>Account to Church?</i>	Yes, required	No, not required
<i>Unused amount</i>	Belongs to church	Belongs to minister, taxable
<i>Amount to allocate</i>	Church should be cautiously conservative	Pastor should set it high
<i>Subject to Soc. Sec. Tax?</i>	No	Yes
<i>Subject to Income Tax?</i>	No	No, except unused portion

4. HOUSING ISSUES - Clergy housing allowance is not subject to income tax to the extent spent on the minister's principal residence and to the extent that it does not exceed the fair rental value of that residence furnished, plus the cost of utilities.

- A. Parsonage value is not subject to FEDERAL INCOME TAX
- B. Housing allowance is not subject to FEDERAL INCOME TAX, if spent on housing
- C. Housing and utilities are subject to SOCIAL SECURITY SELF-EMPLOYMENT TAX
- D. Housing is an exclusion – it should be excluded from the W-2 Form
- E. Exclusion is limited to lower of (A) housing designation, (B) expenditures, (C) fair rental value
- F. The fair Rental Value is a higher figure than most people assume because it is (A) the rental value of your furnisher home, plus (B) utilities in addition.
- G. Advice: set it high! Excess expenses are not deductible!
- H. Unused housing allowance is added back as income on minister's tax return
- I. Lots of expenses count, including cable TV, CD player, renters insurance, dishes, bedding, extra principal payments, down payment, remodeling, etc. *If you can eat it or wear it then it does not count as tax-free housing allowance.*
- J. Housing designation is needed – before the paycheck is written
- K. Can be amended during the year, for the remainder of the year, but not after the year is over
- L. Available only to ordained or licensed ministers, including retired ministers
- M. Each autumn, review your housing expense. *If expenses exceed your housing allowance, have your housing allowance increased for the rest of the year. If expenses are less than your housing allowance, consider paying extra on your home mortgage, so use up your housing allowance. Remember, the Pastor usually sets the amount – not the church.*

5. Exempt from income tax withholding requirement - Use of a W-2 for Ministers – Important for Treasurers!!!

- A. Quarterly 941 form must normally be filed, unless no taxes are withheld from any employee
- B. Social Security tax must not be withheld
- C. No federal or state income tax is withheld – unless the minister requests it
- D. Minister may request that state and federal tax be withheld
- E. Form 941 and W-2 should include the minister's wages – **but not housing**



- F. Form 941 will show different amounts for wages (line 2) and Social Security wages (line 6)
- G. Form W-2 **must** have boxes 3-6 blank
- H. Whether to switch to a W-2 *this* year: Yes!
- I. Whether to switch to a W-2 for *last* year: Carefully consult with the minister; he bears the risk!
- J. Covering Ministers' Taxes
 - 1. Quarterly payments by the minister with Form 1040ES
 - 2. Church **income tax** withholding can replace quarterly payments
 - a. Church sends with form 941
 - b. Church reports all tax assistance for ministers as income tax on 941 Form and W-2 Form. This usually represents 7.65% bonus to regular pay to help offset his 15.30% Social Security tax liability.

WHAT IS CONSIDERED TAXABLE INCOME

- 1. Salary
- 2. Social Security Allowance (extra pay given to pastor to help with paying his 15.30% SS tax)
- 3. Bonus, Gift, Love offering paid by church
- 4. IRA payment or student loan payment made by church
- 5. Whole life, universal life, or variable life insurance plan, paid by church
- 6. Personal use of church vehicle

WHAT IS NON-TAXABLE INCOME – EXCLUDE FROM W-2 FORM

- 1. Qualified Retirement Plans (Denominational Plan and 403b Plan)
- 2. Medical Insurance and Medical Expense Reimbursements
- 3. Job Expense³ Reimbursement
- 4. Moving Expense reimbursements/payments for qualified moving expenses
- 5. Group term life insurance, up to \$50,000 of coverage
- 6. Direct gifts from one person to another, unless related to service rendered (funeral, wedding)

RETIREMENT CONSIDERATIONS

- 1. **Retirement plans**
 - a. How much to save for retirement
 - i. 10% - 15% of salary and housing if also paying Social Security Tax
 - ii. 20% - 25% if exempt from Social Security
 - b. Denominational Pension Plan – defers Income Tax; avoids Social Security Tax; offers tax-free housing allowance during retirement!
 - c. 403(b) Retirement Plans allow salary reductions of \$16,500 in 2010; \$22,000 if age 50 or over. Employer and employee combined contributions cannot exceed \$49,000 in 2010. There are several “funding options” like mutual funds, insurance company annuities and some bank accounts. We typically discourage the use of annuities. They are expensive and often unnecessary. For ministers wanting to receive tax-free clergy housing allowance benefits throughout retirement, we offer the Clergy Advantage 403(b) Retirement Plan. Call us for details.



- d. IRA & Roth IRA contribution limits per person in 2010 are \$5,000; \$6,000 if age 50 or over. IRA deductions phase out if you participate in an employer retirement plan and have modified AGI of: \$89,000 – \$109,000 joint; \$55,000 – \$65,000 single. The phase-out for Roth IRA contributions is \$166,000 – \$176,000 on a joint return (\$105,000 – \$120,000 if single), as is the phase-out for traditional IRA deductions of a person not covered by a qualified plan but whose spouse is.

Investments made into these accounts may avoid Income Tax; does not avoid Social Security Taxes. This is why the 403(b) is often preferable.

[New Tax Provisions for Roth IRA Conversions in 2010](#)

You owe it to yourself to see if a Roth IRA is a good strategy for you. We've used and advocated converting retirement income into a Roth IRA for many people over the years, but it has become even more appealing due to new tax provisions for 2010. Some of the restrictions on converting money to a Roth have been removed and you can actually undo any portion of the conversion as late as October of next year.

Who should look at a Roth IRA Conversion?

This is an individual discussion because of all the various concerns and factors for each situation. We're suggesting that everyone take a look at the benefits of converting some or all of a regular IRA into a Roth, **particularly if you're a married minister** or in a high or low tax bracket. Many ministers in the 0% tax bracket don't realize it because of their housing allowance. These people definitely meet some of the criteria to consider a Roth conversion. However, you can't automatically disqualify yourself if you fall into the middle (10-15%) tax brackets either. Don't believe you're too young or too old for this strategy to work for you, either. For many, but not all ministers, the best time to consider this strategy is when housing expenses are highest.

Your state tax and estate plan need to be taken into account, as well as, the cost and possible tax ramifications for the year of the conversion and a myriad of other factors, so it's not as simple a calculation as one would hope. Most people shouldn't try to figure this one out on their own. The best way to determine and weigh all of the necessary factors is to evaluate your situation carefully with a qualified tax planner and financial advisor. We'll go deeper into the ramifications and criteria if you'd like to call us for a personal evaluation.

- e. Rabbi Trust – Allows unlimited contributions!! Defers Income Tax; may avoid Soc. Sec. Tax. Recent changes to the tax law may severely limit its use. Seek proper counsel.

2. Other Considerations

- a. A 10%-50% "Retirement Savings Tax Credit" on the first \$2,000 per spouse contributed to IRA, Roth IRA, 403(b), or certain other retirement plans. Available only if modified AGI is less than: \$55,500 filing joint; \$27,750 filing single.



- b. Cash Value Life Insurance premiums – *does not* avoid Income tax or Social Security Tax, only the annual earnings avoid tax; generally this is not the best option. The use of Term Insurance is usually much better provided you develop the habit (discipline) to invest on a regular basis.
- c. Home Ownership- *owning* (rather than *renting* or *living in a parsonage*) can help significantly, due to gradually increasing home values. However there are potential disadvantages:
 - i. Home prices fluctuate and can actually be lower when you sell than when you bought
 - ii. Moving can be costly. Expenses of selling a \$100,000 home and buying another can easily exceed \$10,000 in commissions and fees.
- d. Retiring before full retirement age? Try to avoid the Social Security Earnings Ceiling. Retirees age 62 – 66 who receive Social Security retirement benefits lose some or all of those benefits if earned income exceeds the earnings ceilings. We can help with your pay package to avoid this problem! Caution: The number of hours that you work can also create issues with Social Security. In the year workers turn 66, a special limit applies to earnings up through the month before they turn 66.

Worker Age	2010 Earnings Ceiling	Payback Rate
Under Age 66	\$14,160	\$1 for every \$2 excess
Year that you turn Age 66	\$37,680	\$1 for every \$3 excess
After Age 66	No ceiling	None

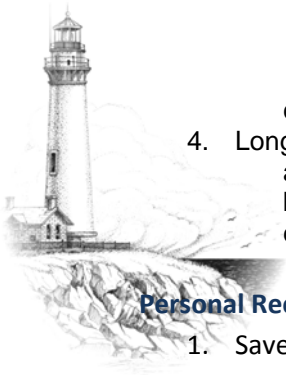
- i. For 2010 that amount is \$14,160 for workers age 62 to 66. If you're over age 66, you may earn as much as you want without losing any Social Security benefits. However, you may pay income tax on Social Security benefits as your income increases. In the year that you turn 66 you'll enjoy a higher earnings ceiling (of \$37,680 in the year 2010).
- ii. **Income counted toward the Earnings Ceiling would include:**
 Ministry Salary, Honoraria, Housing Allowance, Parsonage Rental Value, Social Security allowance paid by the church, other secular work income or any other income from work.
- iii. **Income not counted toward that ceiling includes:**
 Interest and dividends, Pensions, IRA's, TSA's or Annuities, any rental income and capital gains.
- iv. Also, church payments that do not count towards the ceiling include medical insurance for the worker and family. (Medical expenses reimbursed under a properly established Medical Reimbursement Plan will typically cover out-of-pocket expenses, such as deductibles, co-insurance amounts, dental care and eyeglasses). Payment of other ministry expenses such as automobile mileage, meals, entertainment, books, seminars, etc. also do not count. Money set aside by the church for a "Rabbi Trust" or church payments to a 403(b) Retirement Plan is also excludable from the Earnings Ceiling.



- e. Working After Retirement May Affect Your Benefits - Ministers often work beyond the “normal” retirement age. Here’s how extending your work life can affect your taxes and retirement benefits.
- i. “Normal” retirement age is not a fixed number. For Social Security purposes, the “full” retirement age threshold ranges from 65 to 67, depending on your birth date. However, you can elect to start receiving lower payments as early as age 62, or you can maximize your benefits by forgoing them until you’re 70. Once you reach age 70, there’s no incentive to postpone your benefits further, since you’ll already have reached your maximum.
 - ii. You will receive a compensating increase when you do reach full retirement age and your payments will not be reduced thereafter no matter how much you earn.
 - iii. **Taxable benefits.** Even if you are receiving Social Security retirement benefits, you’ll continue to pay Social Security tax on any income you earn from wages or self-employment. Up to 85% of your Social Security retirement benefits may become subject to income tax, depending on the amount of your other income. **An important tax planning strategy that most ministers overlook is to maximize your clergy housing allowance exclusion from ministry pension plans to avoid extra taxation on your Social Security retirement income.** Retired ministers can save thousands of dollars in taxes by using this and other tax saving strategies.
 - iv. Working beyond retirement age can require several complex decisions. Call us to schedule a complimentary consultation to see what’s best for you.

Fringe Benefits:

1. Medical Insurance –
 - a. Is a tax-free employee benefit when paid or reimbursed by the church (or other employer). Make sure your church has a written plan when reimbursing medical expenses and stay compliant with Federal law related to employees.
 - b. Available to clergy and non-clergy alike
 - c. Non-employees (those receiving a 1099 rather than a W-2) *may* need to count this benefit as taxable. NOTE: We DO NOT recommend paying for a non-employee!!!
 - d. 2010 HSA (Health Savings Accounts) Limits Increased
 - i. The IRS recently provided the inflation-adjusted contribution limits for health savings accounts (HSAs) for 2010. HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses.
 - ii. The 2010 contribution limit for individuals is \$3,050; the limit for family coverage is \$6,150. A catch-up contribution of an additional \$1,000 is permitted for individuals who are 55 or older.
2. Life Insurance –
 - a. \$50,000 of term insurance coverage is available tax-free.
 - b. Key-man policy is often a smart idea if there is a large financial commitment.
 - c. Policies can be written either as a group or individual
 - d. Call us for rates. Individually underwritten policies can actually be cheaper for smaller groups.
3. Disability Insurance – can be very important with a building campaign and a large mortgage commitment by the church. The Pastor may be a key figure and his disability could jeopardize the ministry. Best options to consider:
 - a. 90 day elimination period before benefits begin
 - b. Five year benefit



- c. Insurance companies vary as to how they treat Housing Allowance
4. Long-term Nursing Care Insurance
 - a. Ideal for those in mid to late 50s. Unaffordable once you reach age 70.
 - b. 90 day elimination period before benefits begin
 - c. Five year benefit – average stay 2 ½ years

Personal Record Keeping

1. Save permanently – Tax returns and records relating to home purchase, improvement, and sale
2. Save for 4 years beyond the year sold – records relating to purchase and sale of stocks, mutual fund shares, real estate and other property or investments
3. Save for 4 years beyond the end of the calendar year – W-2 Forms, 1099 Forms, bank statements, receipts, canceled checks

New Incentive Tax Credits Can Benefit Churches & Nonprofits

The “HIRE Act,” passed in March, provides tax incentives for churches and nonprofit organizations to hire unemployed workers. One of these incentives is an exemption from Social Security payroll taxes for every qualified worker hired after February 3, 2010, and before January 1, 2011. This new incentive only applies to “lay” employees and does not apply to “minister status” employees.

A new IRS form is available for employers to document this payroll tax exemption for hiring unemployed workers. Form W-11 (Hiring Incentives to Restore Employment Act Employee Affidavit) is to be filled out by the new hire, certifying under penalty of perjury that he or she was either unemployed or worked fewer than a total of 40 hours during the 60 days prior to taking the current job. The W-11 forms are not filed with the IRS. The employer must keep them along with other payroll records.

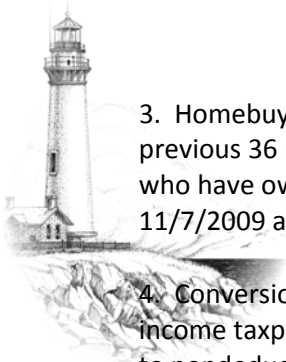
Health Care Tax Credits were included in the recent health care reform legislation for certain small businesses that provide health insurance to their employees. The IRS is in the process of mailing postcards to more than four million small businesses and tax-exempt organizations to make them aware of this new credit for 2010.

The credit is generally available to small companies and tax-exempt organizations that pay at least 50% of the cost of single coverage for their employees. For tax years 2010 to 2013, the maximum credit is 35% of premiums paid by eligible employers (25% for tax-exempts).

Under the right circumstances, these tax incentives can save churches and nonprofits thousands of dollars. Call us to schedule a consultation to discuss how these tax incentives may benefit your organization.

Tax Updates and Reminders for 2010

1. The current exceptionally low tax rates for qualifying dividends and long-term capital gains end on 12/31/2010. If you have property or investments worth more than their cost basis, 2010 may be the ideal year to sell.
2. Taxpayers over age 70½ must take their 2010 Required Minimum Distributions (RMD),



3. Homebuyer Credits of up to \$8,000 are available if you did not own your principal residence for the previous 36 months and buy a principal residence between 04/09/08 and 04/30/10. Also eligible: those who have owned one principal residence for at least 5 years and who buy and move to another between 11/7/2009 and 4/30/2010. Additional requirements must be met.

4. Conversions to Roth IRA are allowed for everyone in 2010; income limits have been eliminated. High income taxpayers previously ineligible for Roth contributions and Roth conversions now can contribute to nondeductible IRAs and then convert those sums to Roth IRA, sometimes without any tax liability. However, there are potential pitfalls! You can also convert in 2010 and wait to pay the tax in 2011 & 2012 – but this may not be advisable if the tax rates are higher then.

5. College education credits are better in 2010 for students in their first 4 years of college. Tuition credits are larger and now partially refundable even if you have no tax. Books, computers, and other required materials are now allowable. For schools in Midwest Disaster areas (parts of AR, IL, IN, IA, MO, NE, WI), room & board costs are allowable and the credit is larger than elsewhere. The AOTC phases out if modified AGI is \$160,000 – \$180,000 (\$80,000 – \$90,000 if single).

6. Home energy improvement (certain insulation, storm windows, heaters, etc.) credits are restored and increased (30% of the first \$5,000 of costs) for 2009 and 2010. An unlimited 30% credit is allowed through 2016 for certain solar panels, solar water heating equipment, geothermal systems, and other alternative energy improvements.

7. Standard mileage rates, set annually by the IRS, may be used instead of actual operating and ownership:

	Business Miles	Charitable/Volunteer	Medical Miles	Moving Miles
2010	50¢	14¢	16.5¢	16.5¢

8. Charitable gifts. For all monetary contributions you need a cancelled check, bank record, or detailed receipt. Gifts of \$250 or more require a receipt and a cancelled check.

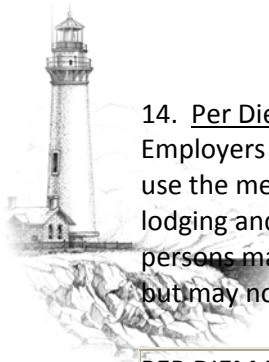
9. A 10%-50% “Retirement Savings Tax Credit” on the first \$2,000 per spouse contributed to IRA, Roth IRA, 403(b), or certain other retirement plans. Available only if modified AGI is less than: \$55,500 filing joint; \$27,750 filing single.

10. The Child Tax Credit is \$1,000 for each dependent child under 17. It can be refundable, even if you have no income tax. Phases out when AGI is over \$110,000 if filing jointly and \$75,000 if single. A separate Dependent Care Credit lets you claim \$3,000 per child (\$6,000 per family) of costs incurred to allow the parent(s) to work or attend school full time.

11. Health Savings Account contribution limits: \$3,050/yr (for 2010) for individual coverage or \$6,150/yr (for 2010) for family coverage, plus \$1,000 if the policyholder is at least age 55.

12. The ceiling on which Social Security tax is assessed is \$106,800 in '09 and '10. In '09, \$1,090 of “FICA” wages or \$1,185 of net self-employment income results in one quarter Social Security credit.

13. Annual Gift Exclusion: \$13,000 in 2010.



14. Per Diem rates for business travel away from home (lodging, meals & incidental expenses): Employers may pay or reimburse travel expenses on an actual cost or per diem basis. Employees may use the meal allowance for reimbursement or for a deduction on their tax return. They may use the lodging and combined allowance only when being reimbursed by their employer. Self-employed persons may use the meal allowance if being reimbursed or if deducting expenses on their tax return, but may not use the lodging per diem. High cost locations are listed in IRS Pub. 463. The '09 rates:

PER DIEM RATES	Lodging	Meals & Incidental Exp.	Combined
Most geographical locations	\$ 111	\$ 52	\$ 163
Certain high cost locations	\$193	\$ 65	\$ 258
Outside Continental U.S.	Various	Various	Various

[Tax Planning Strategies for 2010](#)

With tax changes upon us, consider taking advantage of these tax saving tips. Never try to implement strategies without the help of a qualified, knowledgeable *clergy* tax professional. Always talk to your tax advisor to learn which of these strategies are appropriate in your situation and how to implement them for your greatest advantage.

1. Contribute to the limit. You may save \$5,000 – \$9,000 of tax if you contribute to your Clergy Advantage 403(b) or Denominational Retirement Plan the maximum allowable amount: \$22,000 if over age 50; \$16,500 if younger. There are amazingly effective strategies to help you afford to contribute the maximum, especially if you are over 59 1/2!
2. If you have zero taxable income in 2010, we can show you how to convert money from an existing retirement account to a Roth IRA, typically with no tax!
3. If you own mutual funds, stock, land, houses, rentals, or other investments, the expiring capital gains rates make 2010 a huge opportunity to harvest gains at a discounted rate. The deadline is December of 2010, but don't put this off until then. Talk about it now with your tax advisor and plan ahead.

Also note this potential pitfall: If your church sets aside funds in a deferred compensation account in the church name to pay out in a later year, this must generally be treated as income in 2010, even if it's not paid to you until 2011. We'll elaborate on this if you need more information. There are two exceptions, already mentioned above: the 403(b) retirement plan and a Rabbi Trust, if done correctly.

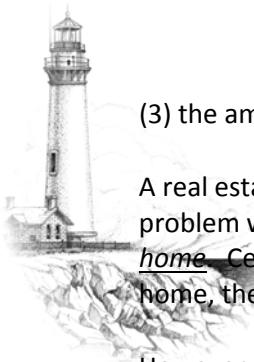
[Clergy Tax Tips – Housing Allowance Answers](#)

In the next few weeks, as you begin thinking about our favorite subject, *clergy taxes*, we're going to address some commonly asked questions. If you're puzzled about some aspect of your housing allowance or clergy tax situation, ask us.

How much housing allowance can I claim on my tax return in a given year?

The clergy tax code imposes three limitations here. Ministers may only claim the lower of these three:

- (1) the amount of the housing allowance designated by the church.
- (2) the fair rental value of the minister's furnished home, plus utilities.



(3) the amount spent that year to buy, rent, furnish, improve and maintain the primary residence.

A real estate agent can be helpful in figuring out the fair rental value of an *unfurnished* home. But, one problem with these calculations has always been in determining the fair rental value of a *furnished home*. Certainly the fair rental value of a furnished home is significantly more than an unfurnished home, there's no argument there.

However, the IRS has not provided official guidance on how to determine the fair rental value of a *furnished home*, even though it's been directed to do so.

When can I change my housing allowance limits?

The Housing Allowance designation can be changed or amended anytime throughout the year but, *never retro-actively*. This means that the new designation applies only to the money remaining to be paid for that year. If you anticipate extra costs in the months ahead for a home purchase, repair, addition, etc. you may adjust your housing allowance designation *before* you incur the expense. You may even designate the entire amount of your salary as housing allowance, if necessary, and is often very appropriate to do so.

How much can my employer designate for housing allowance? My church board believes that \$40,000 is the limit.

We can't be more emphatic about this; there are no official limits, except those numbered and mentioned above in the first question. The Tax Code Regulations and Rulings impose NO LIMITS on housing allowance designations. In some cases, including part-time ministry, semi-retired ministers, particularly high housing costs, and the situations already mentioned above, it may be acceptable and even advisable for 100% of a minister's salary to be designated as housing allowance.

Clergy Taxes – Contributions other than Cash or Checks

Many non-profits and churches struggle with how to properly handle contributions of a non-cash nature. It certainly can be a confusing subject. Here's the way it stands right now.

How do we (the church or non-profit) handle non-cash contributions?

When a church receives non-cash contributions, such as food supplies, vehicles, stock, etc. the church may provide the donor with a receipt or a letter of thanks. Just be sure to include the following information in the receipt or letter:

1. Name, address, telephone number of the church, preferably on official church letterhead.
2. Date(s) of contribution(s)
3. Name of the donor, preferably, the way it appears on the individual's tax return.
4. A carefully detailed description of the donated goods.
5. The name and signature of an officer or official representative of the church.

Special Note* The church should not get involved in the appraisal business. Do NOT, under any circumstances, declare the value of the donated property in the letter. The donor is responsible for obtaining an appraisal or other evidence of the value of the donated items.



Do we (the church or non-profit) need to record or track volunteer expenses somehow?

Volunteer Expenses for driving for the church, Sunday School teachers' purchase of materials, members hosting missionaries, etc. are deductible on the individual's tax return without any statement from the church. This is for the cost incurred for tangible materials or mileage, not the cost of time or skill valuation. The individual should prepare and keep their own detailed record of the expenses with any applicable receipts with their tax papers.

The church may provide a thank you letter acknowledging the nature of the volunteer's expenses, but the donor doesn't need this letter for their tax filing.

If a doctor or plumber, or anyone donates a service to or for the church or non-profit, can he/she be compensated for the *time* involved in the service. How are peoples' donated time and ability to be recorded or compensated?

Unfortunately these very valuable contributions are not tax-deductible. Volunteers are not allowed a deduction for the value of the labor they provide to the church. Teachers, Bible study leaders, volunteer secretaries, painters, even professional services from attorneys and accountants all result in no tax deduction. We've had many discussions with professionals who've donated considerable time and expertise, such as plumbing that were unable to use that time as a tax deduction. Be sure to advise your donors to keep track of any expenses incurred during the service to the church. Those expenses *are* deductible.

(This is not to be confused with professional services hired or purchased for the pastor or church, such as ours. Everything we provide for you is tax deductible. Just thought we'd make that one clear).

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