
The Pastor and His Income Tax



Please Note

Please fill out the **Tax Data Questionnaire** from our website.
www.TheLifeGroup.org.

Mail or FAX to our offices as soon as possible in the tax year.
Questions can be directed to Carla M. Stangl, CPA
or Roy L. Russell, CFP at the office below.

2010 - 2011

The LIFE Financial Group, Inc.

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The LIFE Financial Group, Inc. is a full-service financial planning and wealth management firm promoting a biblical world-view of wealth. We would be honored to have you as a valued client.



Roy L. Russell, CFP and President

Estate Planning, Wealth Management, Tax and Advisory Services since 1978

We offer a wide array of services; we specialize in the following areas:

Wealth Management - We manage over \$100 million for clients all over the USA. We use a combination of strategies and solutions based upon the goals and needs of each client. Our objective is to achieve proper diversification in our clients' portfolios in order to reduce risk. Of course, diversification and asset allocation cannot guarantee a profit or protect against a loss.

Estate Planning – It is our goal to preserve and grow our clients' wealth so that they can enjoy it while they are alive, bless their families, and fund ministry when God calls them home. Our team of expert CFP's®, financial advisors, and support staff work with attorneys and accountants to minimize taxation, simplify the distribution of assets and reduce probate cost.

Tax Preparation and Advice – We have observed that very few tax preparers actually give advice with a tax return. For this reason, we are committed to providing our clients with top notch tax preparation and advice to properly minimize taxation in the current year and how to improve next year's tax return.

Insurance Planning – An important part of planning for the future is considering insurance options. We offer term life insurance, long term care insurance, and disability insurance.

Retirement Income Planning – How much income will I need during retirement? What sources of income will I have in retirement? When will I be able to retire and will I be able to stay retired? These are just a few of the critical questions we need to answer as you enter this pivotal phase of life. With this information we can take steps today to help you achieve your retirement goals.

HISTORY

We are a team of dedicated Believers who seek to bring glory to Jesus Christ by serving other believers around the country. Over the past three decades, the business and ministry has grown to include the following services for pastors and their churches.

Federal and State Income Tax Preparation services

Pastor's Tax Seminars

Stewardship Lifestyle Seminars - 3 day preaching, teaching and training

Pulpit supply focusing on applying biblical wisdom in a foolish world

For more detail about our history and unique view of wealth from scripture please visit our website at www.TheLifeGroup.org

Seminars Available:

The Pastor and his Income Tax: This workshop is designed to help pastors better understand the complex and changing world of federal income tax and social security. This can be taught in churches, Bible Colleges and Seminaries.

Stewardship Lifestyle Seminar: This is a three day seminar designed to help the local church understand and apply Biblical principles related to their finances.

Sunday Services - Sunday School, Morning worship and Evening worship.

Monday night - a two hour session on basic financial planning and retirement planning. Optional: Budgeting and Debt elimination workshop.

Tuesday night - a two hour session on writing a Christian's Will and including the Lord's work in their estate documents.

Avoiding the Costly and Dangerous Mistakes in Retirement: This 45 minute presentation is especially relevant to seniors and often presented at a Seniors Luncheon.

Budgeting and Debt Elimination: This is an hour long workshop helping families create a budget that works. It also offers some helpful strategies to get out of debt as quickly as possible.

We know that “Principle without Application often leads to Frustration.” Therefore, as teachers we always focus on giving very practical applications to everyday problems. The Bible is filled with practical wisdom but America's problem today is that we have too many well educated fools in government and other areas of influence. We understand that the fear of God is the beginning of Wisdom. Since very few people fear God these days, common sense or wisdom is usually absent.

INTRODUCTION

Our Mission Statement: The LIFE Financial Group, Inc. is a Christian financial planning firm that exists to glorify God by helping our clients become better stewards of all of their resources. To this end, we establish strong relationships with our clients so that we can offer Biblically-sound advice.

The LIFE Financial Group, Inc. is a full-service wealth management and financial planning firm. There are three things that set us apart from other wealth management firms:

- * We are Christians and approach investing from a Biblical Worldview.
- * We are Relational, seeking to establish strong, long lasting relationships with families.
- * We are Focused on the big picture for our clients by making sure that Legal documents, Estate Planning, Taxes, Investments, Debt, Savings, and Insurance are all considered together.

One of the objectives of The LIFE Financial Group, Inc. is to provide tax counseling and preparation services to the conservative Christian community. Our duty as individual Christians is to use wisely that which the Lord gives us. As a steward of God, the success or failure you have with the money God gives you will greatly affect your testimony for Jesus Christ.

We ask that you use the “Pastors Tax” pages found on our website www.TheLifeGroup.org to prepare your 2010 and 2011 tax return. All information must be received by March 28 in order to meet the April 15 deadline.

It should be noted that this booklet is designed solely as a general guide. The tax laws are often complex and subject to different interpretations. It will be most important to check for any changes in interpretations, rulings or technical corrections to be made by Congress and/or the IRS. We trust that you will feel at ease in contacting our office for tax counsel or assistance in preparing your tax return.

General Tax Information

Benevolent gifts from church funds to needy families are not taxable unless the gift is to an employee of the church. Contributions are never professional expenses (Section 162(b)). The 2010 mileage rate for professional automobile use is \$.50 per mile. The normal due dates for estimated taxes are April 15; June 15; September 15 and January 15.

DALAN RULING — IRC-265
PROFESSIONAL MINISTERIAL EXPENSES
ONLY PARTIALLY DEDUCTIBLE

In January of 1990, the IRS took another step toward reducing the amount of professional expenses ministers can deduct on their tax returns; expenses such as automobiles, books, periodicals, conferences, office supplies, telephones, etc. It involves a case known as the Dalan Case. In effect, the IRS ruled that, beginning in 1988, ministers would not be able to deduct all of their professional expenses because of earning non-taxable income.

For example, the Housing Allowance: Pastor Smith earns \$60,000 per year of which \$24,000 is housing allowance. His professional expenses amount to \$6,000 for the year. Since forty percent of his income is non-taxable (\$24,000 divided by \$60,000), \$2,400 of his expenses are non-deductible (\$6,000 x 40%). If Pastor Smith is reimbursed by his church for professional expenses, then the Dalan ruling has no effect on the minister. The Dalan ruling also applies to a minister's Schedule C expenses.

Self-Employment Tax Rate (Social Security) 2010.....15.30%

The Self-Employment tax for ministers is computed by taking total income paid to you as salary (including housing allowance), subtracting deductible professional expenses (including travel expenses) and multiplying the result by .9235 and that total by 15.3%. Important Ruling Regarding Pastors' Dual Employment Status According to IRS Publication 517, pastors of churches are employees for federal income tax purposes and self-employed for Social Security (SECA) purposes (i.e. Dual-status employees). The IRS states "The church is required to issue a W-2 whether income tax was withheld or not withheld." The IRS is enforcing this requirement. What does it mean?

1. Churches must issue a W-2 to their ministers.
2. The church must not withhold Social Security and Medicare taxes from the pastor's wages. He is self-employed for Social Security purposes.
3. The minister must pay quarterly on form 1040-ES or have income tax withheld by the church (also see bottom of page 8).
4. If the church withholds any taxes a 941 quarterly tax report must be filed with the IRS.
5. Professional expenses related to the minister's W-2 income must be reported on Form 2106 and Schedule A of Form 1040 unless reimbursed by the church.
6. Income and expenses related to funerals, baptisms, marriages, and other speaking engagements are reported on Schedule C of Form 1040 if done outside normal church employment.
 - a. This may be a great way to earn extra Social Security credits if you have opted out and have fewer than the needed 40 quarters.
 - b. Please remember that 40 quarters are required to have Medicare Part A at age 65. Otherwise you may qualify if your wife has 40 quarters paid in and is 65 or you will need to pay the \$400+ for Part A of Medicare on your own.

WHO IS AN EMPLOYEE?

When the church hires and pays someone to perform services: secretaries, janitors, babysitters, gardeners, etc., they are not independent contractors, they are your employees. You must withhold and match FICA and issue them a W-2. IRS publication 15, page 9 defines who is an employee.

Traveling evangelists or special speakers that are guests of your church would require a 1099-MISC if the honorarium paid to them was \$600 or more. However, any amount they receive is taxable unless they are being reimbursed for expenses. If the check is paid to a corporation, the 1099-MISC is not required. Note: Do not include reimbursements for substantiated expenses on a 1099-MISC.

MINISTERS' RETIREMENT PLANS

Pastors should not participate in a 403(b), Roth IRA or Traditional IRA without tax counsel. We usually recommend using the 403(b) TSA first and then the Roth IRA, especially if you pay SE tax and the church adds their money NOT yours. Unlike normal business' churches can treat each of their employees differently, in other words they can legally discriminate. The Pastor can use the 403(b) while others on staff may benefit more by using the Roth IRA. Call our office if you need assistance.

Traditional Tax-Deductible IRA: These are not used much these days since there are better options available like the 403(b) and Roth IRA. Money contributed is still subject to Social security taxes but is often taken as a tax-deduction against ordinary income.

Roth IRA: These are ideal for those who have opted out of Social Security and who have little to no Federal Income tax liability. They are also ideal for many Christian School teachers.

403(b) Plan: These can be set up by the pastor through the church. The maximum possible annual "elective deferral" contribution for 2010 is \$16,500 (\$22,000 if age 50 or older). The amount contributed is exempt from federal income tax, self-employment tax and most state income taxes **if** the retirement contribution comes from your employer the church (and not payroll deduction). Your personal contributions are subject to Social Security taxes.

Distributions after retirement may be designated for tax-free housing allowance (Revenue Ruling 68-395).

Social Security: Unless you are a conscientious objector as defined on Form 4361, you should not opt out of Social Security. This is the only "legal" reason to opt out. There are many other "good reasons" not to pay into the Social Security system but they don't count! Social Security retirement benefits in one form or another will still be here for our retirement years. The benefits, however, will likely change and the retirement date likely pushed back further to age 70.

Every few years we suggest that you check your Social Security earnings record against your actual income reported to the IRS. Retain your most recent Estimate of Benefits statement and discard the old ones. Here's the website: www.ssa.gov/online/ssa-7004.html

Other Fringe Benefits: Employees of not-for-profit employers (i.e., churches) are eligible for tax-free benefits as long as they follow IRS requirements and are paid directly by the church. Examples: self-insured medical reimbursement plans, disability insurance, educational assistance programs, certain pension plans, group term life insurance on the first \$50,000 of coverage, medical and health insurance.

Disability Insurance: Disability insurance is an important issue that every church board should discuss. Coverage on the Pastor should begin after 90 days and last for at least 5 years. If there is major debt (lets' say from a new building campaign) a disability policy can protect the church.

Long-term (Nursing) Care Insurance: Benefits are tax-free and a great benefit to the pastor who is over age 55. Once an individual is over age 70 the cost is simply prohibitive to start. This type of coverage is a necessary way to protect any asset you have built up over the years.

Medical Insurance: Providing medical insurance for church employees is becoming more complex. Renewal rates are often based on claims experience and will likely increase every year. Try using the Health Savings Account (HSA) along with a high deductible medical insurance plan.

HOUSING/PARSONAGE ALLOWANCE

How the Housing/Parsonage Exclusion benefits clergy. The Internal Revenue Code provides clergy with an exclusion from gross income commonly known as the "housing/parsonage exclusion." Section 107 of the Internal Revenue Code reads as follows:

In the case of a minister of the gospel, gross income does not include:

1. The fair market rental value of a church-owned home provided as part of his compensation
2. The part of his compensation designated as housing allowance, to the extent used by him to rent or provide a home.

Who may qualify for this allowance? To qualify, a minister or religious worker must be duly ordained, commissioned or licensed and authorized to perform the ecclesiastical duties of a minister of the gospel in his church.

Important Note: In order for an evangelist, missionary, theological student, music and education director, administrator of mission board or religious organization and teachers or workers may qualify for the tax-free housing allowance ONLY IF they meet the requirement for being ordained, commissioned or licensed is met and the organization is under the control of a religious body. A church choir director or Christian School Principal does not qualify for tax-free housing unless ordained by the church or licensed by the state of residence.

What does this allowance include?

1. Rent, purchase of a home or home remodeling, not to exceed Fair Market Rental Value* including down payment, mortgage payments (interest, principal), legal fees, taxes and insurance.
2. Furniture, appliances, computers, curtains, rugs, vacuum sweepers, washing machines, dryers, pictures, kitchen and garage utensils.
3. Utilities: heat, electric, telephone, water, cable TV, sewer charge, wood for fire-place, and Internet.
4. Cleaning supplies, brooms, light bulbs, lawn care.
5. Miscellaneous repairs.

Note: Mortgage interest and real estate taxes are also deductible on Schedule A (i.e., a double deduction).

*Fair Market Rental Value (FMRV) varies by location and by house. A general rule of thumb for FMRV is one percent of the appraised value per month. For example, if the appraisal equals \$150,000, the monthly FMRV would be \$1500. The annual FMRV would be \$1500 x 12 = \$18,000. Items 2–5 are in addition to FMRV limitation. This is only a general rule of thumb; the IRS may require a rental appraisal of your home furnished.

**Remember: Housing allowance must be money spent on housing to qualify.
Home equity loans must be spent on the home to qualify.**

Case Threatens Pastor Housing Allowances

How a California court may alter a long-standing ministry benefit.

by Matt Branaugh



Earlier this month, we covered [eight federal issues that local churches should watch](#) closely during the remainder of 2010 and into 2011, according to recent remarks from Dan Busby, president of the Evangelical Council for Financial Accountability. Busby, one of our editorial advisors, is based near Washington, D.C. His role at the ECFA includes advocating on behalf of ministry interests on Capitol Hill, so he's uniquely positioned to see national tax and finance developments unfold that can influence church leaders.

We took notice when we heard the first item on Busby's list: a California lawsuit, filed by the Freedom from Religion Foundation Inc., challenging the constitutionality of tax benefits associated with the housing allowances that churches provide to pastors.

The significance of housing allowances isn't lost on church leaders. For decades, churches have used them to recruit and retain pastors. It's an especially handy tool that churches with limited means, especially small congregations, can use to lure a gifted person. And at a time when the country slogs out of a multiyear recession, it's perhaps as useful of a benefit as ever. The down economy has [challenged weekly giving](#) and strained budgets for many congregations, making [pay raises remain small](#), even nonexistent in some places.

As Richard Hammar notes in his [2010 Church & Clergy Tax Guide](#):

"The three most common housing arrangements for ministers are (1) living in a church-provided parsonage; (2) renting a home or apartment; or (3) owning a home. The tax code provides a significant benefit to each housing arrangement ... The rules ... represent the most significant tax benefits enjoyed by ministers."

Given the importance of housing allowances, we asked Hammar to give us a deeper sense for where the California case will land.

At the moment, the signs aren't favorable. Church leaders should begin thinking now about a future in which housing allowances for pastors do not receive federal tax exemptions.

In May, the government requested the case be dismissed on the grounds [the plaintiffs' primary arguments lacked legal standing](#). The federal district court denied the request. That means the case now moves forward to trial, keeping alive the possibility of a ruling against housing allowances.

"Given the obvious hostility of the federal district court judge to the housing allowance, it is probable that the court will rule that the housing allowance is unconstitutional," Hammar says.

If that happens, the case would be appealed to the Ninth Circuit Court of Appeals. Many, including Hammar, believe the Ninth Circuit will affirm a decision against housing allowances for pastors. As far back as March 2002, for instance, the Ninth Circuit announced it would review "the constitutionality of the allowance" in a different case, "even though neither side in the related case challenged the exemption," according to [an article in the Baptist Press](#). In other words, the Ninth Circuit has looked for opportunities to scrutinize the allowance before.

Should an appeal fail, any other intervention to attempt to reverse it is highly unlikely, Hammar says.

"An appeal from the Ninth Circuit to the U.S. Supreme Court is a long shot. The U.S. Supreme Court hears appeals in only a small percentage of cases, probably one percent or so, so one cannot assume that the Supreme Court will "fix" the problem," he says. "A decision by the courts that the housing allowance violates the nonestablishment of religion clause would be difficult, if not impossible, to "fix" via congressional legislation ... Congress cannot directly overturn a federal court's interpretation of the Constitution, but it can deprive the federal courts of jurisdiction to hear a particular question, such as the constitutionality of the housing allowance. This power has rarely if ever been used, so it, too, is unlikely."

That leaves the outcome of the upcoming trial as the best hope for preserving housing allowances.

"This case is of immense significance to the hundreds of thousands of ministers who acquired homes in reliance on this benefit," Hammar says.

Despite the uncertainty of the case's outcome, and the tendency for legal cases to continue for months, or even years, Busby suggested in his remarks that church leaders identify the consequences of losing the pastor's housing allowance benefit and develop a contingency plan now.

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<http://www.christianitytoday.com/yc/>

**INSERT FOR MINUTES OF MEETING
TO APPROVE THE HOUSING/PARSONAGE ALLOWANCE**

1. It was discussed that under the tax law a minister of the gospel is not subject to federal income tax on the "housing allowance paid to him as part of his compensation to the extent used by him to rent or provide a home."
2. The parsonage owned by the church has a rental value of \$_____ and is provided for the convenience of the church. Actual utility expenses will be paid by the church and they will amount to approximately \$_____ for the year.
3. After considering the statement "Pastor's Estimate of Home Expenses"(see next page) prepared by _____, a motion was made and seconded and passed to adopt the following resolution:
4. Resolved that Pastor _____ is to receive a total cash remuneration of \$_____ (salary) for the year 20____. Of this amount, \$_____ (housing expenses paid from salary) is hereby designated as housing allowance.
5. IRS regulations state that the housing allowance should be designated in writing each year before actual expenses are incurred. The Pastor is hereby requested to submit his anticipated housing expenses in advance every year. Mid-year adjustments may be made if additional housing costs are expected. All adjustments must be made prior to expenses incurred.

Date _____ Signed _____

Note: Using the above insert for the minutes is probably the most convenient for church use. The names of the individuals making the motion and seconding it should be included. If the church does not provide the home and pay the utilities, then the second paragraph is to be omitted. All out of pocket costs in providing your home are to be included in paragraph 4.

Please notify our office involving any IRS notices regarding your tax return.

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Roy L. Russell, CFP

PASTOR'S ESTIMATE OF HOME EXPENSES

Name of church _____

Position held _____

Housing allowance for the coming year of 20____.

I expect to incur the following expenses to rent or otherwise provide a home. I understand that any Housing Allowance not used for housing related expenses will be subject to normal income taxes and that I will add back into my tax return such unused Allowance.

Item	Amount
Rent or payments on purchase of a house including down payment, principal payments, interest, taxes, insurance and improvements	\$ _____
Furnishings and appliances	\$ _____
Utilities	\$ _____
Other housing expenses (cleaning supplies, lawn care, etc.)	\$ _____
Miscellaneous repairs	\$ _____
Total	\$ _____

Signature _____

Date _____

Notes:

1. Submit the total estimated housing allowance to your board by December 31 of preceding year. You are not required to submit a breakdown of the allowance.
2. Always overestimate. The amount you cannot justify as being spent will be declared as income. The unspent portion is either reported on the W-2 in block 1 or on Form 1040, page 1, line 7, as "unused housing allowance."
3. Keep accurate records of your expenditures.
4. Can amend in mid-year, but not retroactively.

Pastor's Sample Salary Package with Housing Allowance

See Example 1 Below

	Annual Amount	Taxable For	Included in W-2
Base Salary	\$ 35,000	FIT & SECA	Yes - Block 1
SE Tax Assistance	4,950**	FIT & SECA	Yes - Block 1
Housing Allowance	20,000*	SECA	Block 14 only
Medical Insurance	8,400	Not Taxable	No
Retirement Plan—403-b	6,000	Not Taxable	Block 12 only
Disability Insurance	1,500	See page 5	See page 5
Long-Term Care Insurance	1,500	Not Taxable	No
Total	\$77,350		

Show Base Salary Amount on W-2, block 1 = \$39,950

Show Housing Allowance* on W-2, block 14 = \$20,000

Total Actual Cash Salary = \$59,950

***Housing Allowance** covers pastor's out-of-pocket expenses to provide a home you either rent or own. See pages 9-10 for details.

****SE Tax Assistance**—(SECA)

Many churches are now adding an additional amount to the pastor's salary to assist him in paying the heavy burden of the 15.3% self-employment tax.

Note: Churches **cannot** contribute to your IRA and exclude it from income on your W-2.

Example 1 Sample W-2

22222		a Employee's social security number 365-16-0000	OMB No. 1545-0048		
b Employer identification number (EIN) 35-6500000		1 Wages, tips, other compensation 39,950.00		2 Federal income tax withheld none	
c Employer's name, address, and ZIP code First Baptist Church 1880 Main Street Newhall, CA 91321		3 Social security wages none		4 Social security tax withheld none	
		5 Medicare wages and tips none		6 Medicare tax withheld none	
		7 Social security tips		8 Allocated tips	
		9 Advance EIC payment		10 Dependent care benefits	
d Control number		11 Nonqualified plans		12a	
e Employee's first name and initial Tom F		Last name Jones		E 6,000.00	
826 Briar Street Newhall, CA 91321		13 <input type="checkbox"/> SIMPLE <input checked="" type="checkbox"/> 401(k) <input type="checkbox"/> 408(a)		12b	
		14 Other Minister - see Schedule SE Housing Allowance 20,000.00		12c	
f Employee's address and ZIP code		15 State CA 555 1234 0		16 State wages, tips, etc. 39,950.00	
		17 State income tax		18 Local wages, tips, etc.	
		19 Local income tax		20 Locality name	

W-2 Wage and Tax Statement **2009** Department of the Treasury—Internal Revenue Service

Form Copy 1—For State, City, or Local Tax Department

Pastor's Sample Salary Package with Church-Owned Parsonage

See Example 2 Below

	Annual Amount	Taxable For	Included in W-2
Base Salary	\$ 35,000	FIT & SECA	Yes - Block 1
SE Tax Assistance	4,950	FIT & SECA	Yes - Block 1
Parsonage Allowance	12,000*	SECA	Block 14 only
Housing Allowance	8,000**	SECA	Block 14 only
Medical Insurance	8,400	Not Taxable	No
Retirement Plan - 403-b	9,000***	Not Taxable	Block 12 only
Disability Insurance	1,500	See page 5	See page 5
Long-Term Care Insurance	1,500	Not Taxable	No
Total	\$ 80,350		

Show Base Salary Amount on W-2, block 1 = \$39,950

Show total of Parsonage and Housing Allowance* on W-2, block 14 = \$20,000

Total Actual Cash Salary (does not include parsonage) = \$47,950

***Parsonage Allowance** pertains to fair market rental value of church-owned home plus actual utilities paid by the church.

****Housing Allowance** covers pastor's out-of-pocket expenses incurred in the church-provided home. See pages 9-10 for details.

*****Retirement**—increased benefit compensates pastor for lack of equity building due to living in church-owned parsonage.

Example 2 Sample W-2

22222		a Employer's social security number 365-16-0000	OMB No. 1545-0008			
b Employer identification number (EIN) 35-6500000		1 Wage, tips, other compensation 39,950.00	2 Federal income tax withheld none			
c Employer's name, address, and ZIP code First Baptist Church 1860 Main Street Newhall, CA 91321		3 Social security wages none	4 Social security tax withheld none			
		5 Medicare wages and tips none	6 Medicare tax withheld none			
		7 Social security tips	8 Allocated tips			
d Control number		9 Advance EIC payment	10 Dependent care benefits			
e Employee's first name and initial Last name Tom F Jones 826 Briar Street Newhall, CA 91321		11 Nonqualified plan	12a <input type="checkbox"/> E 9,000.00			
		13 Statutory employee <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b <input type="checkbox"/>			
		14 Other	12c <input type="checkbox"/>			
		Minister - see Schedule SE Housing Allowance 20,000.00	12d <input type="checkbox"/>			
f Employee's address and ZIP code		16 State wages, tips, etc. 39,950.00	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
15 State Employer's state ID number CA 5551234 0						

W-2 Wage and Tax Statement **2009**

Form **2009** Department of the Treasury—Internal Revenue Service
Copy 1—For State, City, or Local Tax Department

PROFESSIONAL EXPENSES

In any corporation, like a church, necessary expenses are incurred in order for its employees to perform their respective duties. These expenses are deductible according to Section 162. Pastors and their associates are included.

Examples of professional expenses that would apply to a church setting would be as follows: automobile (\$.50 per mile), books, periodicals, religious materials, dues, postage, business entertainment, business gifts (subject to limits), equipment, conferences, education expenses, office supplies and telephone expenses for professional calls. Don't forget to submit receipts for food when entertaining families from church at your home. That's also considered a "professional business related expense".

An amount to cover these expenses should be included in a line item category in the church budget, separate from and in addition to salary. The employees should then be reimbursed out of the budget as they adequately account to the church for those expenses considered ordinary and necessary for them to carry out their duties.

PROFESSIONAL REIMBURSEMENT

How does it work? The church would reimburse you out of a General Fund line item account (e.g., travel at \$.50 per mile, entertainment, books, periodicals, conferences, etc.). You would then get reimbursed monthly for these expenses by the church.

You must be accountable with receipts and logs. If you do not use the total budgeted amount you anticipated by the end of the year, you lose it. It does not become salary. What does it do? It could prevent an audit by the IRS for those areas now targets. You eliminate form 2106 and Schedule A from your tax return. It will also save taxes since a portion of expenses listed on your 1040 are now subject to limitations. They are not subject to limitations if reimbursed. You do not report the reimbursed amount on the pastor's W-2. It is not income.

Pastor's Sample Professional Expense Fund

Business mileage—6,657 miles @ \$.50.....	\$ 3,328
Business gifts.....	100
Office supplies.....	100
Religious materials.....	100
Subscriptions and books.....	280
Seminar dues and conferences.....	1,000
Professional educational expense.....	500
Business telephone.....	150
Professional entertainment.....	260
Total professional expenses.....	\$ 5,818

The above professional expenses are **not** part of salary but part of the cost to the church of a pastor performing his responsibilities for the church. The amount of the reimbursement fund can be re-evaluated at the beginning of each year, and the pastor can adjust his salary accordingly. This is a recent change; in past years the reimbursement fund and the pastor's salary could never affect each other (see note on bottom of page 14).

WHEN IT COMES TO TAXES – A REIMBURSEMENT IS CHEAPER THAN A PAY RAISE!

Substantiation of Expenses

Substantiation requirements. A taxpayer must substantiate by adequate records or by sufficient oral or written evidence the following types of expenses:

1. Traveling expenses including meals and lodging while away from home.
2. Entertainment expenses.
3. Business gifts.

Since 1985, taxpayers have been required to answer questions on their returns regarding the business use of an automobile including:

1. The total number of miles driven during the year.
2. The total number of business miles driven during the year.
3. Whether the vehicle was used for commuting and, if so, the distance normally commuted.
4. Whether the vehicle was available for personal use in off-duty hours.
5. Whether another vehicle was available for personal use.
6. Whether adequate records or sufficient evidence exists to justify the deduction and whether or not the evidence is written.

Elements to be substantiated. Taxpayers are required to substantiate the following elements:

1. The amount of each expense or other item.
2. The time and place of the travel, entertainment, amusement, recreation, or the date and description of the gift.
3. The business purpose of the expense or other item.
4. The business relationship to the taxpayer of the persons being entertained, or receiving the gift.

Adequate records. Adequate records or sufficient evidence include the following:

1. Account books, diaries and logs.
2. Documentary evidence (receipts, paid bills).
3. Trip sheets.
4. Expense reports.
5. Written statements of witnesses.

If a taxpayer does not have adequate records to substantiate his expenses, or if he cannot supply sufficient oral or written evidence thereof, no tax deductions or credits will be allowed with respect to an item. It should be noted that Congress has emphasized that different types of evidence have different degrees of probative value and that oral evidence alone has considerably less probative value than written evidence.

Proof of Entertainment Expenses

The elements to be proved with respect to an expenditure for entertainment are:

1. The amount of each separate expenditure for entertainment. (Incidental items such as taxi fares or telephone calls may be aggregated on a daily basis.)
2. The date of the entertainment.
3. The place of the entertainment.
4. The business purpose and the nature of the business benefit expected to be reaped by the taxpayer.
5. The business relationship to the taxpayer of the persons entertained (name, occupation, title).

Minutes for Professional Expense Reimbursement Fund. Having your professional expenses reimbursed by the church is a must. New IRS regulations require the reimbursement policy to be in writing and approved by the board (this is a one-time motion only).

Sample minutes should be as follows:

The chairman informed the meeting that according to Regulation 1.62-2 (TD8324), an employee who adequately accounts to the employing body the details of his professional expenses can be reimbursed.

A motion was made by _____ and seconded by _____ and passed to adopt the following resolution:

Resolved that in addition to the salary provided our employees, we will reimburse them for auto, travel and professional expenses considered ordinary and necessary for them to carry out their duties.

It is further understood that a person other than the employee will examine the adequately accounted records and that the records will be kept for at least six years by the employing body.

Note: Churches can re-evaluate the budgeted amount of professional expenses prior to the start of each calendar year, and according to Private Letter Rulings (9822044 and 199916011), can increase/decrease the pastor's salary to offset the increase/decrease in his professional expense account.

Auto Expenses

Optional method. For business use only (all business miles must be logged), the IRS allows you to deduct \$.50 per mile. In addition, you may deduct your actual toll and parking fees. A daily log book must be kept in order to use this method. Items to be daily noted are: date, odometer reading at beginning of trip, odometer reading at end of trip, miles driven for the day, place and purpose of the trip. This is the best method to use.

Regular method. (All miles must be logged.) This is an itemized list of your actual auto expenses consisting of gas, oil, lubrication, repairs, parts, tires, batteries, tune-ups, car washes, insurance, auto club dues, interest on auto loan, licenses, personal property tax, sales tax, auto rentals, parking fees, tolls on turnpikes and auto depreciation. The amount deducted is based on the percentage of miles used for business purposes. **We rarely recommend this method.**

Professional mileage. The following mileage rates apply:

	business	medical	moving	Charitable Schedule A	
2010	\$0.50	\$0.24	\$0.24	\$0.14	..

Church-Owned Vehicle

It is becoming customary for churches to purchase automobiles for their pastor; accurate mileage records must be maintained. An amount for personal use must be added to the pastor's W-2. Please consult your tax preparer or the IRS lease tables (available on our website) for the correct computation.

Home Equity Loans or Refinancing Your Home

In private letter Ruling 9115051, the IRS has clarified their position. (Even though private letter rulings are not precedent setting, we believe following this would be wise tax counsel.)

The point here is that monies borrowed on your home must be used to provide a home as required by Section 107 in order to be included in the Housing Allowance. For example, the mortgage payment on a home equity loan where the monies were used to buy an automobile could not be used in the Housing Allowance. However, the interest on the home equity loan would be deductible on Schedule A of Form 1040.

Federal Tax Forms Required for Church Use

Churches are not required to obtain IRS approval for tax-exempt status. Incorporation by the state is all you need.

SS-4 Application for Employer Identification Number. Use this form to apply for a federal employer identification number.

W-2 Wage and Tax Statement. All clergy should receive this form by January 31 from the church. See sample on previous page; send copy A as noted on statement.

W-3 Transmittal of Income and Tax Statements. This is the reporting form that the treasurer uses to summarize the church's W-2s for the year. The W-3 and the original W-2s are then submitted by February 28 to the Social Security Administration with the remaining copies of the W-2s distributed as noted on the forms.

W-4 Employee's Withholding Allowance Certificate. This form is filled out by the employee for the treasurer's records. It instructs the treasurer on withholding federal income taxes from wages, the amount to withhold, or even if to withhold. This form is retained in the treasurer's file as a matter of record.

I-9 Employment Eligibility Verification. This form is filled out by the employee (section 1) and the employer (section 2). It certifies the employee's eligibility to work in the United States. This form is retained in the treasurer's file as a matter of record.

Form 941 Employer's Quarterly Federal Tax Return. Effective January 1, 1984, this form is required by most churches. This report is filed by the treasurer quarterly and is a report of all taxes withheld from employees' wages during the quarter. You do not have to deposit those withheld taxes during the quarter unless the total for all employees is more than the minimum payment. You may send the deposit with the report. Read the instructions on the form for information regarding the minimum. Treasurers should file the 941 quarterly even if the report shows "no taxes withheld" until notified differently by the IRS. This report should show all wages including the pastor's on line 2, excluding his housing allowance. The pastor's salary is omitted on line 5 because he is self-employed for Social Security.

State Forms. States differ on payroll reporting requirements, including state I.D. numbers. Contact your state office for details.

Remember, pastors are employees for Federal Income Tax and are self-employed for Social Security Tax (SECA).

A pastor's options in paying taxes during the year are:

1. Your treasurer can withhold Federal Income taxes if you request it.
2. You must file Social Security taxes quarterly on Form 1040-ES unless exempt.
3. You can file quarterly on 1040-ES for all taxes (Federal and Social Security).
4. Prepaying your state taxes by withholding or quarterly estimates may be required.

Interest and penalties are now being assessed to those who do not prepay their tax obligations and the penalties are severe.

Miscellaneous Business Record Form

Date	Purpose	Entertainment	Air Fares	Motels	Meals	Other
Totals						

Note: Retain receipts for motels and expenditures of \$75 or more.

What to Do if You're Audited

1. Know your return, especially the area being audited. Remember, you are responsible for the numbers represented on your tax return. Your records will be the key to the outcome.
2. Always maintain a cooperative spirit. The IRS has a difficult task to perform and they are just doing their jobs.
3. If you do not agree with the auditor's conclusions, you may appeal to his supervisor. If you still do not agree, you can request a conference with the Appeals Office by writing the District Director in your area.

Audit prevention tips

1. File your tax return on time.
2. Check the mathematics on your return.
3. Make sure you and your spouse sign and date the return.
4. Pay your taxes on time, either quarterly on Form 1040ES or by payroll deduction.
5. Clean up your return by understanding the tax law. For example, setting up a professional expense reimbursement policy with your church eliminates Schedule 2106 from your return. This is perhaps the most frequently audited schedule in a tax return.

We recommend the following resources:

■ **IRS Publication 517**

Social Security for Members of the Clergy and Religious Workers

■ **IRS Publication 557**

Tax Exempt Status for Your Organization

■ **IRS Publication 526**

Charitable Contributions

■ **IRS Publication 1828**

Tax Guide for Churches and Religious Organizations

■ **Christian Ministry Resources**

Richard R. Hammar

PO Box 2301, Matthews, NC 28106

(800) 222-1840

■ **The Life Financial Group, Inc.**

Roy L. Russell, CFP

978 Ben Franklin Hwy., Douglassville, PA 19518

(610) 385-4500

■ **Internal Revenue Service Website**

www.irs.gov

■ **State Forms**

www.taxadmin.org/fta/link/forms.html

WHAT A DIFFERENCE PLANNING CAN MAKE!



**We can save \$28,320
by prefunding a
future obligation.**

¹ 120 equal monthly payments of \$122 assuming a 10% net return.

² 120 equal monthly payments of \$358 assuming a 12% loan rate.

A portion of each payment may be tax deductible, effectively reducing the net after tax cost of the loan.

These are hypothetical assumptions based on the stated contribution amounts and an assumed annual 10% rate of return. The numbers stated do not reflect any particular investment and are not implying any guarantee that you will experience the same result. Past performance of any investment cannot be assumed or guaranteed into the future. With any investment, consider any and all objectives, risks, sales charges and expenses before investing.

Debt is a worldwide epidemic. In order to protect our families from it, we must change the way we treat money. It all starts with an acknowledgement that God owns all things and that the way we handle money reveals who or what we worship. ~ Tim Russell

Sample bulletin insert

The wicked borrows but does not pay back, but the righteous is generous and gives;

Psalms 37:21

The rich rules over the poor, and the borrower is slave to the lender.

Proverbs 22:7

Debt Elimination: Free To Serve

I. **Debt Elimination Starts in the HEART!**

A. **Acknowledge your sin of poor stewardship, if necessary.**

“If we confess our sins, he is faithful and just to forgive us our sins and to cleanse us from all unrighteousness.” (1 John 1:9).

B. **Acknowledge your need of help.**

“God is our refuge and strength, a very present help in trouble.” (Psa 46:1).

“Let us then with confidence draw near to the throne of grace, that we may receive mercy and find grace to help in time of need.” (Heb 4:16).

C. **Make a commitment to the Lord to be a godly steward.**

“I appeal to you therefore, brothers, by the mercies of God, to present your bodies as a living sacrifice, holy and acceptable to God, which is your spiritual worship.” (Rom 12:1)

II. **Debt Elimination Requires CHANGE!**

A. **Determine where you are financially.**

1. List all of your debts.
2. Inventory your assets.
3. Complete a household budget.
 - b. Identify your income sources and amounts.
 - c. Identify your financial obligations.

B. **Stop going into debt. Stop the financial bleeding!**

*In order to destroy debt, you must harness your greatest debt destroying, wealth building tool – **Your Income!***

C. Start using a disciplined spending systems:

1. Envelopes
2. Savings Account for annual bills (taxes, insurance, vacation, Christmas, exc.)
 - a. Add up all these expenses, divide by 12 and set that amount aside monthly.
 - b. Withdraw from account when bill comes in to avoid debt.
3. Electronic Tracking (Quicken or Mint.com)

D. Establish accountability.

E. Develop a repayment plan.

1. **Reduce** your expenses.
 - a. Eliminate luxuries and excess spending (i.e. cable TV, eating out, impulse spending, and coffee on the way to work...)
 - b. Sell unnecessary assets (EBay, Craigslist, yard sale)
2. **Increase** your cash flow.
 - a. You may need extra work.
 - b. Increase exemptions to reduce tax refunds.
3. **Work** your “*Debt Snowball*” as described below.
 - a. Live on a strict budget
 - b. Get a Starter Emergency Fund (\$1,000)
 - c. List debt from smallest to largest balance due, excluding your mortgage.
 - d. Pay as much as you can on your smallest debt and minimums on all the rest.
 - e. After your smallest debt is paid off, roll that payment over to the next smallest and repeat until you’re debt free.
 - f. When you have to dip into your Emergency Fund (EF) stop the debt snow ball (pay minimums on all balances) and refill EF back to \$1,000.
 - g. See Dave Ramsey’s *The Total Money Makeover* for more details.

The LIFE Financial Group, Inc. is a full service wealth management firm serving the Christian community since 1978. We specialize in estate planning, investment management, tax and advisory services. If you would like information about our services please visit our web site www.TheLifeGroup.org. It would be an honor to work with your family and play an important role in its financial success.

Local Attorneys we use and recommend for a Christian's Will and Estate documents.

Pottstown, Phoenixville & Douglassville areas



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Solicitor to: Collegeville Borough, Zoning Hearing Board

A native of Collegeville, Pennsylvania, Mr. Kaplan was born on October 26, 1945 and was admitted to the bar in 1971. He is a graduate of Perkiomen School (1964), Ursinus College (B.A., 1968) and The University of Pittsburgh Law School (J.D., 1971). Prior to joining O'Donnell, Weiss & Mattei, P.C. as a partner in 1983, Mr. Kaplan was law clerk to the Honorable Richard S. Lowe, Court of Common Pleas, Montgomery County, Pennsylvania and in private practice.

He is a member of the Montgomery County and Pennsylvania Bar Associations. His areas of practice include Estate Planning and Administration and Social Security Law. Mr. Kaplan authored the Estate Mate Planner in 1989. The Planner is currently incorporated into his law firm's website at www.owmlaw.com. Mr. Kaplan has known and worked with Roy Russell and his firm since 1980. In those past 30 plus years, hundreds of wills and trusts have been written with several million dollars directed back into the Lord's work.

David has served as a leader in numerous not for profit organizations including current leadership in the Montgomery Conflict Mediation Center and Collegeville Rotary Club.

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Mr. Orlando concentrates his practice in the areas of Real Estate, Business and Commercial law, Bankruptcy, Municipal and Zoning law, Wills, Estates and Elder law, including litigation related to these practice areas in all State and Federal courts. He serves as President of Berks County Abstract Company, a full service title insurance agency providing real estate title insurance services to all personal and business clients of Roland and Schlegel.

Active in community affairs, Mr. Orlando previously served on the Board of Directors of the Boyertown Area United Way and was Campaign Chairman as well as President and Chairman of the Board of Directors in 1990. He also served as Dinner Chairman of the Good Scout Dinner for the Hawk Mountain Council, Boy Scouts of America in 1992 and was also active for many years in both Cub Scout and Boy Scout troops locally.



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James N. Clymer is the managing partner of Clymer, Musser, Brown & Conrad, P.C. Mr. Clymer practices in the areas of civil litigation, bankruptcy, real estate, organizational business planning and estate planning. Mr. Clymer completed his undergraduate work at Millersville University and was graduated cum laude in 1972. He was also graduated cum laude from Washburn University School of Law, Topeka, Kansas, in 1978.

He has worked with numerous organizations committed to the protection of religious liberty, including: the American Center for Law and Justice, the National Legal Foundation, the Rutherford Institute, the Home School Legal Defense Association, and the American Family Association Law Center. He has also served as advisor to various crisis pregnancy centers.

Mr. Clymer serves as National Chairman for The Constitution Party and has run for the U.S. Senate in 2004 in addition to Lt. Governor of Pennsylvania in 1994 and 1998. He serves on numerous boards, including, Mom's House of Lancaster, PA, American Family Association of Pennsylvania and The Conservative Caucus. Mr. Clymer is married to Lois D. Clymer and has five children. When not practicing law, Mr. Clymer, as an instrument rated pilot, enjoys flying and aviation activities.

Other Christian Attorneys for your area by request.



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