PacificCPE

COURSE

32002A

Understanding Church and Minister Taxation: Part 2

Ministers face a uniquely complex tax situation—they're treated as employees for income tax purposes but self-employed for Social Security, and they may qualify for valuable housing exclusions. This course covers the self-employment tax exemption, net earnings calculations, income and deductible expenses, retirement savings options, and the earned income credit. Special attention is given to who qualifies as a minister, parsonage allowance rules, retired ministers, religious order members, and allocating deductions when some income is tax-exempt.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify who can and cannot be exempt from SE tax.
- Recall the difference between accountable and nonaccountable plans.
- Identify the requirements of rental and housing allowance designations.
- Recognize the details concerning ministers and IRAs.
- Identify some of the deductible business expenses for ministers.
- Recall some of the special tax treatments given to ministers.

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Chapter 1: EXEMPTION FROM SELF-EMPLOYMENT (SE) TAX

Chapter Objective

After completing this chapter, you should be able to:

- Identify who can and cannot be exempt from SE tax.
- Recall the difference between accountable and nonaccountable plans.

I. EXEMPTION FROM SELF-EMPLOYMENT TAX

You can request an exemption from SE tax if you are a member of the clergy (minister, member of a religious order, or Christian Science practitioner or reader) or a member of a recognized religious sect.

Tip

Generally, members of religious orders who have taken a vow of poverty are already exempt from paying SE tax. They don't have to request the exemption.

Who can't be exempt. You can't be exempt from SE tax if you made one of the following elections to be covered under social security. These elections are irrevocable.

- You elected to be covered under social security by filing Form 2031, Revocation of Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners, for your 1986, 1987, 2000, or 2001 tax year.
- You elected before 1968 to be covered under social security for your ministerial services.

Requesting exemption. Table 4-1 briefly summarizes the procedure for requesting exemption from the SE tax. More detailed explanations follow.

Caution!

If you are a minister, member of a religious order, or Christian Science practitioner, an approved exemption only applies to earnings you receive for ministerial services, discussed earlier. It doesn't apply to any other self-employment income.

TABLE 4-1. THE SELF-EMPLOYMENT TAX EXEMPTION APPLICATION AND APPROVAL PROCESS

	Who Can Apply	
	Members of the Clergy	**Members of Recognized Religious Sects**
How	File Form 4361	File Form 4029
When	File by the due date (including extensions) of his or her income tax return for the second tax year in which he or she had at least $400 of net earnings from self-employment, any of which came from ministerial services	File anytime
Approval	If approved, you will receive an approved copy of Form 4361	If approved, you will receive an approved copy of Form 4029
Effective Date	For all tax years after 1967 in which you have at least $400 of net earnings from self-employment, any of which came from ministerial services	For all tax years beginning with the first year you meet the eligibility requirements, discussed later

A. MEMBERS OF THE CLERGY

To claim the exemption from SE tax, you must meet all of the following conditions.

- You file Form 4361, described below under Requesting Exemption—Form 4361.

- You are conscientiously opposed to public insurance because of your individual religious considerations (not because of your general conscience), or you are opposed because of the principles of your religious denomination.
- You file for other than economic reasons.
- You inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty member). This requirement doesn't apply to Christian Science practitioners or readers.
- You establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization.
- You establish that the organization is a church or a convention or association of churches.
- You didn't make an election, discussed earlier under Who can't be exempt.
- You sign and return the statement the IRS mails to you to certify that you are requesting an exemption based on the grounds listed on the statement.

1. Requesting Exemption – Form 4361

To request exemption from SE tax, file Form 4361 in triplicate (original and two copies) with the IRS.

The IRS will return to you a copy of the Form 4361 that you filed indicating whether it has approved your exemption. If it's approved, keep the approved copy of Form 4361 in your permanent records.

a. When to File

File Form 4361 by the date your income tax return is due, including extensions, for the second tax year in which both of the following are true. 1.You have net earnings from self-employment of at least $400. 2.Any part of those net earnings was from ministerial services you performed as a:

a) Minister,

b) Member of a religious order, or

c) Christian Science practitioner or reader.

The 2 years don't have to be consecutive tax years.

Tip

The approval process can take some time, so you should file Form 4361 as soon as possible.

Example 1

Rev. Taylor Jaeger, a member of the clergy ordained in 2025, has net self-employment earnings as a minister of $450 in 2025 and $500 in 2026. Rev. Jaeger must file his application for exemption by the due date, including extensions, for his 2026 income tax return. However, if Rev. Jaeger doesn't receive IRS approval for an exemption by April 15, 2027, his SE tax for 2026 is due by that date.

Example 2

Rev. Casey Wolfe has only $300 in net self-employment earnings as a minister in 2025, but earned more than $400 in 2024 and expects to earn more than $400 in 2026. Rev. Wolfe must file her application for exemption by the due date, including extensions, for her 2026 income tax return. However, if Rev. Wolfe doesn't receive IRS approval for an exemption by April 15, 2027, her SE tax for 2026 is due by that date.

Example 3

In 2023, Rev. Riley Moss was ordained a minister and had $700 in net self-employment earnings as a minister. In 2024, Rev. Moss received $1,000 as a minister, but his related expenses were over $1,000. Therefore, he had no net self-employment earnings as a minister in 2024. Also in 2024, Rev. Moss opened a bookstore and had $8,000 in net self-employment earnings from the store. In 2025, he had net self-employment earnings of $1,500 as a minister and $10,000 net self-employment earnings from the store.

Rev. Moss had net earnings from self-employment in 2023 and 2025 that were $400 or more each year, and part of the self-employment earnings in each of those years was for his services as a minister. Thus, Rev. Moss must file his application for exemption by the due date, including extensions, for his 2025 income tax return. However, if Rev. Moss doesn't receive IRS approval for an exemption by April 15, 2026, his SE tax for 2025 is due by that date.

b. Death of Individual

The right to file an application for exemption ends with an individual's death. A surviving spouse, executor, or administrator can't file an exemption application for a deceased clergy member.

c. Effective Date of Exemption

An approved exemption is effective for all tax years after 1967 in which you have $400 or more of net earnings from self-employment and any part of those earnings is for services as a member of the clergy. Once the exemption is approved, it is irrevocable.

Example

Rev. Hayden Austin, ordained in 2022, had $400 or more in net self-employment earnings, in both 2022 and 2025, part of which was from her services as a minister. Rev. Austin files an application for exemption on February 19, 2026. If an exemption is granted, it is effective for 2022 and the following years.

d. Refunds of SE tax

If, after receiving an approved Form 4361, you find that you overpaid SE tax, you can file a claim for refund on Form 1040-X. Generally, for a refund, you must file Form 1040-X within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed, or tax you paid, before the due date is considered to have been filed or paid on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund won't be more than the tax you paid within the 2 years immediately before you file the claim.

B. MEMBERS OF RECOGNIZED RELIGIOUS SECTS

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from payment of social security and Medicare taxes on both your self-employment income and the wages you earn from an employer who also has an exemption.

1. Exception

If you received social security benefits or payments, or anyone else received these benefits or payments based on your wages or self-employment income, you can't apply.