

Instructions to prepare W-2:

Box a: Enter pastor's social security number

Box b: Enter church's employer identification number (Caution: verify with IRS if you have not used this number in recent years.)

Box c: Enter church's name and address

Box 1: Taxable salary computed as follows:

Total cash salary

Minus:

- All Fringe Benefits
(examples: Flex plan contributions, expense reimbursement plans)
- Pastor's portion of health insurance paid directly
- Elective pre-tax contributions to retirement plans
- Housing allowance paid to pastor (when pastor owns home)
- Additional housing designated by the pastor
- Furnishings allowance designated (when church provides parsonage)

Plus:

- + Unspent housing/furnishings allowance
- + Gifts paid through the church treasurer (gifts received from individuals are not taxable)

Box 2: Federal tax withholding if pastor requested

Box 3 through 8: leave blank

Box 10: Enter amount of dependent care benefits paid through a Flex Plan/125 Plan

Box 11: Leave blank

Box 12: If pastor made elective contributions to a retirement plan, enter appropriate code and amount contributed

(403(b)/UMPIP pre-tax contributions are code "E", Roth contributions are code "BB")

Box 13: Check "Retirement Plan" box if the denomination has a retirement plan, and/or pastor makes elective contributions

Box 14: Optional information – may enter housing/furnishing allowance/utilities pd

Box 15: State of residency & church's employer state ID number if you have one

Box 16: Same amount as box 1

Box 17: Enter state tax withholding if pastor requested

Planning the Pastor's Salary Package

By Betty Mennenga of Mennenga Tax & Financial Services

2nd Church is planning their budget for next year. They furnish a parsonage. Pastor Tom wants to have the most tax efficient salary package they can offer.

Total Salary Package	\$60,000
(use employee benefits that are available)	
Church directly pays his share of health ins	\$4000
Tom uses Flex pay for out of pocket medical	\$1000 (enrollment starts in Nov)
Tom designates furnishings allowance	\$5000 (if underspent, excess gets added to income)
Tom contributes to UMPIP	\$ 600

On his W-2, the church reports \$44,000 as wages in box 1.

60,000
-4,000
-1,000
-5,000
<u>- 600</u>
49,400

As an employee, Tom can use his employer's accountable plan to reimburse:

Continuing Education	\$ 800
Professional Expenses	\$ 800
Travel in his car	\$1200

As a profession that receives income from other sources (funerals and weddings) that was paid directly to him, he uses Sch C to report this income. If there are direct expenses, such as a wedding gift, he deducts these on Sch C.

As a self employed person for social security purposes, Tom computes his SE tax as follows:

W-2 wages	\$49,400
FRV parsonage + utilities	9,600
Honoraria from Sch C	300
minus unreimbursed expense if any	<u>-400</u>
Total	\$58,900

125 Plans: Flex plans/Cafeteria plans that allow an employee to pay for child care, medical expenses, etc, with pre-tax dollars. The conference has a plan which pastors can use.

Retirement contributions

To lower taxable income, make extra contributions for retirement through UMPIP. A minister can elect to have a percentage of wages go to a 403(b) retirement plan. There is a match requirement for the employer. There is no administration charge. On average, every \$1000 contributed saves \$370.

If a church has several other employees and wants to offer them a retirement benefit, a SIMPLE Plan works well. In 2018, an employee can elect to put up to \$12,500 (\$15,500 for age 50 & older) into retirement. There is a match requirement for the employer. There is no administration charge except for each individual's annual fee of approximately \$10.

Example of a pastor's W-2

22222		Employee's social security number 011-00-2222		OMB No. 1545-0008	
b Employer identification number (EIN) 00-0246810			1 Wages, tips, other compensation 31000.00		2 Federal income tax withheld
c Employer's name, address, and ZIP code First United Church 1042 Main Street Hometown, TX 77099			3 Social security wages		4 Social security tax withheld
			5 Medicare wages and tips		6 Medicare tax withheld
			7 Social security tips		8 Allocated tips
d Control number			9		10 Dependent care benefits
e Employee's first name and initial John E. White		Last name White	Suff.	11 Nonqualified plans	
1040 Main Street Hometown, TX 77099			13 <input type="checkbox"/> Salary employee <input checked="" type="checkbox"/> Rectorial plan <input type="checkbox"/> Third party salary		12a
			Furnishing Allowance \$6,000		12b
			Utilities Allowance \$3,000		12c
f Employee's address and ZIP code					12d
15 State Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement
Copy 1 - For State, City, or Local Tax Department

2017

Department of the Treasury - Internal Revenue Service

(See pg 13 for more details)

Box 1: Cash wages paid
+ Unspent housing allowance

Box 2: Amount of federal tax withholding

Box 3-8: Leave blank

Box 12a: Enter amount of voluntary contributions (pre-tax UMPIP is code "E", Roth UMPIP is code "BB")

Box 14: Enter Parsonage allowance & utilities paid (optional)

Box 15: Enter "WI"

Box 16: Same as box 1

Box 17: Amount of state tax withholding