**The Minister and the Church’s Payroll Tax Obligations**

Key tips on navigating withholding.

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For employers, the Internal Revenue Code defines payroll tax obligations in two primary areas: (1) federal income tax withholding and (2) Social Security/Medicare tax withholding. The Code determines what income is subject to taxes and the related withholding of the taxes.

**Federal Income Tax Withholding**

Ministers are exempt from mandatory withholding of federal income taxes from their salary. Ministers can elect that an employer withhold federal income taxes by completing either a Form W-4 or by giving written instructions to the church. The exemption from withholding federal income taxes from a minister’s pay should not be construed as an exemption from federal income tax. Without written authorization to withhold federal income tax, a church may not withhold the taxes from the minister’s pay. Therefore, it is important that a minister clearly communicate his expectations regarding the payment of federal income taxes.

Elaine’s Extra: Ministers may either pay their income taxes through federal income tax withholding or by making estimated tax payments throughout the year. Either option requires a minister to estimate the total tax for the year to make the right tax payments.

**Example 6-4**  
Pastor Smith works for First Church. At the end of the year, his tax preparer questions why his Form W-2 doesn’t have any income tax withholding reported in Box 2. Curious, Pastor Smith asks the payroll department why it has not withheld federal income tax from his taxable pay. The payroll clerk tells him that since he never provided a completed Form W-4 or any other instructions to the church regarding withholding for federal income taxes, the church may not withhold income taxes from his pay.

**Social Security & Medicare Tax Withholding**

Non-minister employees pay into the Social Security and Medicare programs through the Federal Insurance Contributions Act (FICA). The FICA/Medicare program requires an employer to withhold one-half of the tax, the employee’s contribution, and match the other half of the tax, the employer’s contribution. Ministers, performing ministerial duties, **do not and cannot participate** in the FICA program. This is not an elective decision for the minister or the church, but a decision mandated by law.

Elaine’s Extra: Ministers should estimate their self-employment tax and include it with the income tax paid through withholding of federal income tax by the church or in their quarterly estimated tax payments.

Ministers pay into the Social Security system through the Self Employment Contributions Act (SECA). Ministerial earnings are, as defined by law, self-employment income. The result is that a church is prohibited from withholding and matching Social Security/Medicare taxes for a minister as required for other employees. Ministers report earnings on Schedule SE with the Form 1040 unless they have an approved Form 4361. (The Form 4361 is discussed later in this chapter.)

Elaine’s Extra: Many churches voluntarily increase a minister’s compensation package by the 7.65 percent the church would pay in FICA/Medicare taxes for a non-minister employee. Often referred to as the SECA Allowance, the amount is a part of a minister’s taxable compensation package.

**Example 6–5**  
Joe serves First Church as the new executive pastor. His duties include overall supervision of the administration of the church, preaching one Sunday each month, and teaching a class each Wednesday night. Joe is ordained by First Church. Joe recently left a corporate job and is new to working in a church. Joe requests the payroll department withhold Social Security and Medicare taxes with employer matching on his taxable pay. Because Joe meets the definition of a minister performing ministerial duties, Joe’s request cannot be honored by First Church.

**Warning:** *When a minister has Social Security and Medicare taxes withheld from his paycheck, he is essentially telling the IRS he is not a minister for federal tax purposes. If he is not a minister for federal tax purposes, then he or she is not eligible for the housing allowance provided by IRC Section 107. (See Chapter 11 of my book for a discussion of the housing allowance.)*