

TAX YEAR
2026

Clergy—Religious Workers

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Ministers

Ministers are individuals duly ordained, commissioned, or licensed by a church. "Church" is used generically and does not refer to any particular religion. Most ministers who receive compensation are treated as dual-status taxpayers—employees for income tax purposes but not for Social Security and Medicare taxes. Many ministers also receive a parsonage allowance. See *Parsonage Housing Allowance,* later.

Ministerial income. Total ministerial income includes church wages, gross self-employment income from ministerial service, and tax-exempt allowances.

Employee income and expenses. The minister receives Form W-2 from the church employer.

- The minister's wage income is reported in box 1, Form W-2.
- Social Security and Medicare taxes (FICA) are not withheld. The wages will be included in the minister's self-employment tax computation.
- Ministers are not subject to federal income tax withholding. A minister and employer may agree to voluntary withholding.
- Parsonage or housing allowances are reported in box 14, Form W-2.

Unreimbursed employee business expenses are not deductible as itemized deductions. However, the allowable expenses may be subtracted from self-employment earnings when computing self-employment tax.

Self-employment income and expenses. Amounts received by a minister for performing marriages, baptisms, funerals, and other personal services, are generally self-employment income, even if Form 1099-NEC, *Nonemployee Compensation,* is not received by the minister.

- Self-employment income is reported on Schedule C (Form 1040), *Profit or Loss from Business.*
- Self-employment expenses are deductible on Schedule C (Form 1040), prorated to the extent the minister has tax-exempt income from a parsonage allowance.

Expense reduction for tax-exempt income. A minister who receives tax-exempt income (such as a parsonage allowance) as part of compensation must reduce deductions for Schedule C (Form 1040) self-employment expenses as follows.

$$\frac{\text{Tax-exempt income}}{\text{Total ministerial income}} = \text{Reduction percentage}$$

Minister's self-employment tax. A minister reports income subject to self-employment tax on Schedule SE (Form 1040), *Self-Employment Tax.*

The following income is included as self-employment income on Schedule SE.

- Church wages from box 1, Form W-2, less associated employee expenses in full.
- Gross Schedule C (Form 1040) income from ministerial services, less associated self-employment expenses in full.
- Entire amount of parsonage allowance, including utilities, whether received in the form of allowances or provided in-kind to the minister. If housing and utilities are provided, include the fair rental value of the home and cost of utilities.

Do not include any of the following.

- Expense reduction due to tax-exempt income.
- Housing and housing allowance, including utilities, provided to retired ministers.



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Example: *Manuel receives a salary from the church of $20,000. His parsonage/housing allowance is $12,000. He has unreimbursed employee business expenses (before excluding nondeductible amounts attributable to his exempt income) of $5,200. His net earnings for self-employment tax are $26,800 ($20,000 + $12,000 – $5,200).*

Note: *All of Manuel's unreimbursed business expenses are deductible for self-employment tax purposes, although the portion attributable to the exempt housing allowance is not deductible for federal income tax purposes.*

Earned Income Credit (EIC). For purposes of the Earned Income Credit, a minister's earned income includes:

- Net earnings from self-employment from Schedule SE (Form 1040), including parsonage allowance, *minus*
- The portion of SE tax deducted on Form 1040, *plus*
- Non-ministerial wages.

Parsonage Housing Allowance

A church or congregation may provide for a minister's residence in the form of a parsonage or a housing allowance. The value of a parsonage, plus utilities, if paid by the church, and housing allowances are subject to self-employment tax but may generally be excluded from income tax.

Self-employment tax. The fair rental value of the home, including the cost of utilities, is included in gross income when calculating self-employment tax.

Parsonage provided to a minister. The value of the home, including utilities, is excluded from income. The exclusion cannot be more than reasonable pay for the minister's services.

Housing allowance paid to a minister. A minister can exclude from income the smallest of:

1) The amount officially designated by the employer as housing allowance. Amounts must be designated as housing allowance before payment is made.
2) The amount actually used to provide a home. Include amounts paid in the tax year for rent, mortgage payments, furnishings, appliances, repairs, utilities, and down payments. Do not include food, entertainment, household employees, or home equity loan payments for items unrelated to the home. Mortgage interest and property tax used in this calculation are also allowed as itemized deductions on Schedule A (Form 1040).
3) The fair rental value of the home, including furnishings, utilities, garage, and parking spaces.
4) The minister's reasonable pay.

Employers typically report housing allowances in box 14, Form W-2. Housing allowances are not included in taxable wages in box 1. If the excludable amount is less than the housing allowance, include the excess as income on Schedule 1 (Form 1040).

Retired Ministers

Income tax. Retired ministers can exclude from taxable income:

- The value of housing and utilities provided to them, or
- The part of a pension officially designated as housing allowance. The amount excluded is limited to actual expenses or fair rental value of the home. See (2) and (3) above.

Self-employment tax for retired ministers. Housing provided to retired ministers and housing allowances paid to retired ministers are not subject to self-employment tax.

Surviving spouses. A minister's surviving spouse cannot exclude a parsonage allowance from income unless it is received for ministerial services he or she performs or performed.

Court Case: The IRS appealed a Tax Court ruling permitting an ordained minister to use his parsonage allowance to provide both a main home and second home. The 11th Circuit Court determined that Congress intended for the parsonage allowance exclusion to apply to only one home, reversing the Tax Court ruling. The parsonage allowance was excludable only to the extent used for the minister's main home. (*Philip A. Driscoll and Lynn B. Driscoll,* 11th Cir., February 8, 2012)

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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