



Ministers' Tax Guide for 2025 Returns

2026

Tax Return Preparation

Guide

Prepared by

Elaine L. Sommerville, CPA
Senior Editorial Advisor, Church Law & Tax

and

Richard R. Hammar, J.D., LL.M., CPA (retired)
Senior Editor, Church Law & Tax

Edited by GuideStone®

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Church Law & Tax gratefully acknowledges the assistance of the Orlando-based CPA firm of Batts, Morrison, Wales & Lee, P.A., in the preparation of the illustrated tax return and other related information included with this resource. Batts, Morrison, Wales & Lee, P.A. is dedicated exclusively to serving churches, nonprofit organizations, and their affiliates. The firm's website is *NonprofitCPA.com*.

Master Plan Tax Solutions of Flower Mound, Texas, reviewed the material in the *Ministers' Tax Guide*. For additional information, visit *MasterPlanTaxes.com*.



Welcome to the annual *Ministers' Tax Guide*, one of the most trusted resources for pastors and church workers we have the privilege of serving. We're honored to provide this guide at no cost to you.

The *2026 Tax Return Preparation Guide (Ministers' Tax Guide for 2025 Returns)* is authored and edited by Elaine Sommerville and Richard Hammar, two of the nation's leading experts in ministerial tax issues. Their expertise helps ensure this guide addresses the most common questions and forms you'll encounter as you prepare your tax return. For additional details, you can visit [IRS.gov](https://www.irs.gov) at any time.

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Thank you for allowing us to serve you. May the Lord bless you richly as you continue to serve Him faithfully.

D. Hance Dilbeck Jr.
President, GuideStone

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Part 1: Introduction

All references in this publication to line numbers on IRS forms are for the “draft” versions of the 2025 forms, since the IRS had not released the final forms as of the date of publication.

How to Use This Guide

This guide contains the basic information you need to complete your 2025 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource — the 2026 Federal Reporting Requirements for Churches — helps churches comply with their federal tax reporting requirements throughout 2026.

This guide is divided into the following sections:

Part 1: Introduction — This section reviews tax highlights for 2025 and presents several preliminary questions you should consider before preparing your tax return.

Part 2: Special Rules for Ministers — In this section, you learn if you are a Minister for Tax Purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how you pay your taxes.

Part 3: Step-by-Step Tax Return Preparation — This section explains how to complete the most common tax forms and schedules for ministers.

Part 4: Comprehensive Examples and Sample Forms — This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.

Part 5: The 2026 Federal Reporting Requirements for Churches — The next section assists churches (especially treasurers and bookkeepers) with filing federal tax forms and meeting other tax compliance requirements throughout the year.

Tax Highlights for 2025

On July 4, 2025, the One Big Beautiful Bill Act enacted several changes that will affect 2025 and 2026. These changes are summarized below:

Changes affecting 2025 and future tax years:

- A temporary deduction for tax years 2025 through 2028 is available for seniors (ages 65 or older) of \$6,000 per eligible filer, regardless of whether they are itemizers or non-itemizers. The deduction is available to taxpayers with a Modified Adjusted Gross Income (MAGI) that does not exceed \$75,000 for single filers (\$150,000 for a joint return).
- The itemized deduction for state and local taxes now caps at \$40,000 for 2026 for taxpayers with modified AGIs of \$500,000 or less. The cap also increases by 1% each subsequent year through 2029. The cap remains \$10,000 for taxpayers with MAGIs over \$500,000.
- For 2025 through 2028, a deduction is available for qualified overtime premium pay received by taxpayers during a given taxable year. The deduction is limited to \$12,500 (\$25,000 in the case of a joint return). The deduction begins to phase out starting at a MAGI of \$150,000 (or \$300,000 for joint returns).
- For 2025 through 2028, a deduction is available of up to \$25,000 for qualified tips received by taxpayers. The deduction begins to phase out starting at MAGI of \$150,000 (or \$300,000 for joint returns).
- An above-the-line deduction is available for tax years 2025 through 2028 of up to \$10,000 for qualified passenger vehicle loan interest paid during a given taxable year. The deduction phases out starting when the taxpayer's MAGI exceeds \$100,000 (\$200,000 in the case of a joint return). To be eligible, the passenger vehicle must have at least two wheels, be made primarily for use on public streets, roads, and highways, and have its final assembly occur in the U.S.
- Eligible expenses for the use of distributions from 529 plans are expanded to more expenses associated with elementary, secondary, or homeschooling programs, as well as including expenses associated with postsecondary credentialing programs. New expense definitions apply to distributions made after July 4, 2025.
- Tax credits for “clean” vehicles, “clean” energy expenditures, and energy-efficient home improvements are only available through December 31, 2025.
- Several items in the tax code that were set to revert to pre-2018 status are now here to stay. They include:
 - The disallowance of a deduction for moving expenses or for moving expenses to be paid tax-free by an employer
 - The disallowance of miscellaneous itemized deductions on *Schedule A*, including unreimbursed employee business expenses (except for educator expenses)
 - Lower individual tax rates
 - Higher standard deductions, but no deductions for personal exemptions

- Higher amounts for the Child Tax Credit
- Increased amounts for estate and gift tax exclusions
- Limitations on qualified mortgage interest to mortgages not to exceed \$750,000

Changes affecting 2026 and future tax years:

- Taxpayers who do not itemize deductions on *Schedule A* will be able to claim a deduction up to \$1,000 for single filers (\$2,000 for married filing jointly (MFJ)) for charitable cash contributions for tax years 2026 and forward. The charitable contribution must be made to a qualified charity and cannot be made to donor-advised funds or supporting organizations.
- Taxpayers who itemize charitable deductions can only deduct the portion of their charitable contributions that exceeds 0.5% of their AGI.
- A new type of savings account known as Trump Accounts may be established for children under age 18. The accounts will operate similarly to Individual Retirement Accounts (IRAs). Contributions to the accounts will not be deductible, but may come from a variety of sources, including: tax credits for children born between January 1, 2025, and December 31, 2028; parents; relatives; employers; and nonprofit organizations.
- The limit for distributions from 529 plans for expenses associated with K-12 increases from \$10,000 to \$20,000, as well as an expansion of expenses eligible to be paid from 529 plans.
- Eligible educators may make an itemized deduction on *Schedule A* for unreimbursed expenses of equipment and supplementary materials used as a part of an instructional activity.
- The maximum annual exclusion for employer-provided dependent care assistance increases to \$7,500 for single filers and joint filers.
- Taxpayers in the 37% income tax bracket will find their itemized deductions limited.

There are several other tax developments that affect tax reporting by both ministers and churches for 2025 and future years. Here is a rundown of some of the key provisions affecting 2025 returns:

- For high-income individuals' catch-up contributions to retirement plans, employees with wages (as defined for purposes of FICA/Medicare tax withholding) of more than \$150,000 paid in the prior calendar year must be contributed to a Roth account within the plans. Originally effective for plan years beginning after December 31, 2023, the effective date has been delayed to plan years beginning after December 31, 2025.

- The mileage rate for miles driven for business increased to 70 cents per mile on January 1, 2025, an increase of 3 cents per mile and was available for the entire 2025 tax year. The business mileage rate for 2026 is 72.5 cents per mile.
- The charitable mileage rate remains at 14 cents per mile.
- The Alternative Minimum Tax (AMT) exemption amount for tax year 2025 increases to \$88,100 for single taxpayers and \$137,000 for married persons filing jointly. The exemption amount for single persons (and heads of household and married persons filing separately) begins to phase out at \$626,350, and the exemption amount for married couples filing jointly begins to phase out at \$1,252,700.
- For estates of any decedent passing away in calendar year 2025, the basic exclusion amount is \$13,990,000.
- For 2025, the foreign earned income exclusion is \$130,000.
- For 2025, the maximum Earned Income Tax Credit (EITC) amount is \$8,046 for taxpayers with three or more qualifying children.
- For contributions in 2025 to a Traditional IRA, the deduction phaseout income range for an individual covered by a retirement plan at work runs between \$126,000 and \$146,000 for joint filers and \$79,000 and \$89,000 for a single person or head of household. These ranges increase in 2026. The range for joint filers will run between \$129,000 and \$149,000. The range for a single person or head of household will run between \$81,000 and \$91,000.
- The dollar limit on annual elective deferrals an individual could make to a 401(k) or 403(b) retirement plan is \$23,500 for 2025. It increases to \$24,500 for 2026.
- The catch-up contribution limit on elective deferrals to a 401(k) or 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$7,500 for 2025. It increases to \$8,000 for 2026. The new additional catch-up contribution is available for participants ages 60, 61, 62, or 63, raising their limit to \$11,250. (The limit is unchanged for 2026.) Beginning in 2026, a new provision requires catch-up contributions to be contributed to Roth accounts within the 403(b) plan if a participant's income exceeds \$150,000 in 2025 for contributions made in 2026. If a church's plan does not provide for Roth accounts, it must be amended by December 31, 2026, to be eligible to receive these contributions from higher-income employees. Because wages for this provision use the definition for purposes of FICA/Medicare withholding, the provision will not apply to ministers. Wages paid to ministers do not meet this definition.

Preliminary Questions

Below are several questions you should consider before preparing your 2025 federal tax return.

Q. Must ministers pay federal income taxes?

- A. Yes. Ministers are not exempt from paying federal income taxes.

Q. How much income must I earn to be required to file a tax return?

- A. Generally, ministers are required to file a federal income tax return if they have earnings of \$400 or more to report their self-employment tax. Different rules apply to ministers who are exempt from self-employment taxes.

Q. What records should I keep?

- A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits. Documentation should be maintained for six years from the time you file your tax return. Since much of this documentation is now provided in an electronic format, remember to save PDF copies of bills, receipts, and other documentation supporting your tax return.

Q. What is the deadline for filing my federal income tax return?

- A. File a 2025 *Form 1040* (or *Form 1040-SR, U.S. Tax Return for Seniors*) and pay any tax due by April 15, 2026. If you live in Maine or Massachusetts, you may file by April 17, 2026, because of the Patriots' Day and Emancipation Day holidays. If you file after this date, you may have to pay interest and penalties. If you want an automatic six-month extension of time to file the return, see the following question about how to obtain an extension. The extension will not extend the time to pay your taxes, so estimate what you owe in taxes and pay it in full to avoid penalties and interest.

Your return is filed on time if it is properly addressed and postmarked no later than the due date or submitted electronically by midnight on the filing due date. The return must have sufficient postage to be considered timely mailed.

TIP: Post Offices typically no longer schedule extended hours of operation on the tax-filing day to accommodate filers. While some may follow the tradition, check with your local post office to determine if extended hours are available. To avoid complications with mailing and any issues with the IRS processing paper returns, explore ways to electronically file your tax return and avoid the Post Office™ altogether.

TIP: If you reside in an area that has experienced a natural disaster, be sure to confirm any applicable filing deadlines. The occurrence of a federally declared disaster will many times initiate automatic extensions of due dates to affected taxpayers. The IRS provides information by year and by state at [IRS.gov/newsroom/tax-relief-in-disaster-situations](https://www.irs.gov/newsroom/tax-relief-in-disaster-situations). These extensions will also apply to due dates for tax payments.

Q. What if I am unable to file my tax return by the deadline?

- A. You can obtain an automatic six-month extension (to October 15, 2026) to file your 2025 *Form 1040* if you file *Form 4868* by April 15, 2026, with the IRS service center for your area. The *Form 4868* may be filed electronically using IRS Free File (although check to see if the option is still available in April 2026) or by mailing *Form 4868* to the IRS, postmarked on or before the filing deadline. Making a payment using an online payment option and checking the box that the payment is part of filing an extension will also be considered an extension even without the *Form 4868*. If you use a third-party preparer, the preparer will generally submit the extension electronically on your behalf. However, it is wise to confirm this service will be provided before the return's due date.

Your *Form 1040* can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to **file your return; it is not an extension of the obligation to pay your taxes**. You must make an estimate of your tax for 2025 and pay the estimated tax either with your *Form 4868* or through one of the electronic payment methods.

Q. Should I prepare my own tax return?

- A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind: Ministers' taxes present several unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules to accurately utilize the software. On the other hand, if you experienced unusual events in 2025, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called Taxpayer Assistance at [IRS.gov/help/contact-your-local-irs-office](https://www.irs.gov/help/contact-your-local-irs-office), but the IRS is not liable in any way if its agents provide you with incorrect answers

to your questions. Free taxpayer publications are available from the IRS and many of these are helpful to ministers.

RECOMMENDATION: If you need professional assistance, here are some tips that may help you find a competent tax professional:

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA or an enrolled agent (EA) who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program, and both CPAs and EAs have passed exams. Both must keep up with continuing education and are subject to strict ethical requirements. However, the tax law is complex, and so it should not be assumed that all CPAs or EAs are familiar with the unique rules applicable to ministers.
- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers' taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or ask a tax professional if a minister's church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.

Part 2: Special Rules for Ministers

Who is a minister for federal tax purposes?

✦ **KEY POINT:** The IRS has its own criteria for determining who is a Minister for Tax Purposes. The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a Minister for Tax Purposes is an important question since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- Eligibility for housing allowances and the parsonage exclusion
- Self-employed status for Social Security
- Exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to prepay their taxes, unless they elect voluntary withholding)
- Eligibility, under very limited circumstances, to exempt themselves from self-employment taxes

These special rules only apply to persons qualifying as a minister and with respect to compensation received in the exercise of ministerial services.

✦ **EXAMPLE:** Pastor J is an ordained minister employed by a church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance since this work would not be the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a Minister for Tax Purposes. See IRS *Publication 517*.

Are ministers employees or self-employed for federal tax purposes?

✦ **KEY POINT:** Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a *Form W-2* from their church reporting their taxable income. However, ministers are self-employed for Social Security with respect to services they perform in the exercise of their ministry (except for some chaplains).

Ministers have a **dual** tax status. For federal income taxes, they ordinarily are employees, but for Social Security they are self-employed regarding services performed in the exercise of their ministry. These two rules are summarized below:

1. Income Taxes

For federal income tax reporting, most ministers are employees under the tests currently used by the IRS and the courts. This means that they should receive a *Form W-2* from their church at the end of each year (rather than a *Form 1099-NEC*). Expenses associated with being an employee are not deductible for federal income tax purposes.

A few ministers are self-employed, such as some traveling evangelists and some interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee of the church but will be self-employed regarding guest-speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

✦ **EXAMPLE:** Pastor B is a minister at First Baptist Church. He is an employee for federal income tax reporting purposes with respect to his church salary. However, he is self-employed with respect to honoraria he receives for speaking in other churches and for compensation church members give him for performing personal services such as weddings and funerals. The church issues Pastor B a *Form W-2* reporting his church salary. Pastor B reports this amount as wages on Line 1 of *Form 1040*. He reports his compensation and expenses from the outside self-employment activities on *Schedule C*.

✦ **KEY POINT:** Most ministers will be better off financially being treated as employees, since the value of some fringe benefits will be tax-free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to

self-employed ministers who are audited by the IRS and reclassified as employees.

- ✦ **KEY POINT:** Ministers and other church staff members should carefully review their *Form W-2* to be sure it does not report more income than was actually received or fails to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (*Form W-2c*). If the church refuses to correct the income reported on the original *Form W-2*, the minister should still include the additional income on *Form 1040*.

Worker classification for ministers. The courts and the IRS have used several factors, although similar in nature, to determine the proper classification of ministers. One of the most applicable tests was created by the U.S. Tax Court. The Court created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work; (2) which party invests in the facilities used in the work; (3) the opportunity of the individual for profit or loss; (4) whether or not the employer has the right to discharge the individual; (5) whether the work is part of the employer's regular business; (6) the permanency of the relationship; and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

2. Social Security

The federal tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry — even if they report their income taxes as an employee. This means that ministers must pay self-employment taxes (Social Security taxes for the self-employed) unless they have timely filed an exemption application (*Form 4361*) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

- ✦ **KEY POINT:** While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee's share of Social Security and Medicare taxes, even though they report their income taxes as employees and receive a *Form W-2* from their church. A minister's *Form W-2* should not report any amounts in Boxes 3, 4, 5, and 6. Rather, they pay the self-employment tax (SECA) by completing *Schedule SE* with their *Form 1040*.

Exemption from Self-employment (Social Security) Taxes

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their

ministerial earnings. Among other things, the exemption application (*Form 4361*) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of \$400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed based on religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by non-governmental institutions (such as a life insurance company). Additionally, the exemption does not require ministers to revoke all rights to Social Security benefits earned through their participation in the system through secular employment.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program) that are related to services performed as a minister. Economic, or any other non-religious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing that they do not qualify for the exemption. A decision to opt out of self-employment tax is irrevocable. But section 4.19.6.4.12.3 (02-13-2020) of the IRS's *Internal Revenue Manual* explicitly recognizes that, under some conditions, ministers who have exempted themselves from self-employment taxes solely for economic reasons can revoke their exemption. The IRS does have the authority to revoke a minister's decision to opt out of self-employment tax, if it is determined that the decision is based on economic reasons rather than theological reasons. Check with a tax attorney, CPA or EA for additional information.

An exemption from self-employment taxes applies only to compensation for ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any non-ministerial compensation they receive. And they remain eligible for Social Security benefits based on their non-ministerial employment, assuming they have worked enough quarters. Generally, 40 quarters are required. Ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) based on their spouse's coverage, if the spouse had enough credits.

- ✦ **KEY POINT:** The amount of earnings required for a quarter of coverage in 2025 is \$1,810. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.
- ✦ **KEY POINT:** Ministers who work after they retire must continue to pay self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax as a minister and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to self-employment tax, including amounts paid from retirement plans designated as housing allowance.

How do ministers pay their taxes?

- ✦ **KEY POINT:** Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure unless they enter into a voluntary withholding arrangement with their church with respect to federal income tax.

A minister's wages are exempt from mandatory federal income tax withholding. This means that a church may not withhold income taxes from a minister's paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share of Social Security and Medicare taxes from a minister's wages. Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure unless they enter into a voluntary withholding arrangement with their church.

Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual tax, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should refigure your estimated tax liability for the year and amend your remaining quarterly payments accordingly.

You will need to make estimated tax payments for 2026 if (1) you expect to owe at least \$1,000 in tax for 2026 after subtracting your withholding and refundable credits, and (2) you expect your withholding and refundable credits to be less than the smaller of (i) 90% of the tax to be shown on your 2026 tax return, or (ii) 100% of the tax shown on your 2025 tax return (110% if AGI exceeds \$150,000, or if married filing separately, more than \$75,000). Your 2025 tax return must cover all 12 months.

The three-step procedure for reporting and paying estimated taxes for 2026 is summarized below.

Step 1

Compute your estimated tax for 2026 using the *Form 1040-ES* worksheet. Ministers' quarterly estimated tax payments should take into account both income taxes and self-employment taxes. A refund associated with an overpayment of your taxes for 2025 may be applied to your estimated tax payments due for 2026.

Step 2

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. **If you don't pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return.** Pay one-fourth of your total estimated taxes for 2026 in each of four quarterly installments as follows:

For the Period	Due Date
January 1–March 31	April 15, 2026
April 1–May 31	June 15, 2026
June 1–August 31	September 15, 2026
September 1–December 31	January 15, 2027

If the due date for making an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the IRS says the payment will be on time if it is made on the next day that's not a Saturday, Sunday, or legal holiday. If you reside in an area affected by a federally declared disaster, then these dates may be affected by any filing relief granted as a result of the declaration. See more information in Part 1.

Step 3

There are several ways to make your quarterly payment, including:

IRS Direct Pay. For online transfers directly from your checking or savings account at no cost to you, go to [IRS.gov/Payments](https://www.irs.gov/Payments).

IRS Online Account. Individuals may establish an online account with the IRS where they can access tax records, make and view payments and create payment plans. Accounts can be established at [IRS.gov/payments/online-account-for-individuals](https://www.irs.gov/payments/online-account-for-individuals).

Pay by Card. To pay by debit or credit card, go to [IRS.gov/Payments](https://www.irs.gov/Payments). A convenience fee is charged by these service providers.

Electronic Fund Withdrawal (EFW). EFW is an integrated e-file/e-pay option offered when filing your federal taxes electronically using tax preparation software, through a tax professional, or the IRS at [IRS.gov/Payments](https://www.irs.gov/Payments).

Electronic Federal Tax Payment System® (EFTPS). If enrolled in the EFTPS, please note that significant changes are underway.

▲ **CAUTION:** The EFTPS closed to new enrollees as of October 17, 2025, and the system is being phased out in 2026 for use in making electronic individual tax payments at a date still to be determined. Individuals must move to an individual IRS Online Account or the IRS Direct Pay system for payments.

Pay by check using an estimated tax payment voucher.

By Executive Order 14247, the IRS has been ordered to move all payments to and from the IRS to electronic formats and to discontinue receiving or issuing paper checks. Effective September 30, 2025, the IRS started this initiative by announcing that all future refunds will be made through an electronic format. It is anticipated that this same announcement will be made for payments to the IRS prior to the start of the 2026 filing season. It is strongly recommended that one of the above alternatives be established and you do not send any paper checks to the IRS.

▲ **CAUTION:** If your 2025 tax return is not completed by April 15, 2026, you must begin making your estimated tax payments to avoid potential underpayment penalties. A tax refund on your 2025 tax return can be used to adjust any estimated tax payment not made at the time of the filing of the return. Do not wait until your 2025 return is completed to determine and pay your 2026 estimated tax payments.

★ **KEY POINT:** Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed *Form W-4* (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church may not withhold the employee's share of Social Security and Medicare taxes, even on a voluntary basis. However, ministers can request on *Form W-4* (Line 4c) that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister's self-employment tax liability. Many churches unintentionally withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld. Withholding income tax is a preferential method of paying taxes, since it is considered to have

been equally paid throughout the year, no matter the date the tax is withheld. This means withholding can be adjusted later in the year, and it is treated as if it was paid evenly throughout the year, thus avoiding potential underpayment penalties.

Primer on a Minister's Income

Determining church wages or salary. Besides a salary, ministers' wages reported on *Form W-2* may include several other items, including the following:

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by the church)
- The portion of a minister's self-employment tax paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a non-accountable plan
- Imputed cost of group term life insurance coverage exceeding \$50,000
- The cost of life insurance provided outside of a group plan if not considered as key man life insurance
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- Discretionary funds established by a church for a minister to spend on current needs — if the minister is allowed to distribute funds for personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan
- Imputed interest from below-market interest loans of at least \$10,000 made by a church to a minister (some exceptions apply)
- Cancellation of a minister's debt to a church
- Severance pay
- Payment of a minister's personal expenses by the church
- "Love gifts" or other special occasion gifts (i.e., most gifts from a church to a pastor commemorating a holiday, birthday, anniversary, or retirement).

If some of these items were not reported on your *Form W-2*, they still must be reported as income. If the amounts are not reported on your original *Form W-2*, your church should issue a “corrected” *Form W-2 (Form W-2c)* for the year in which one or more items of taxable income were not reported on your original *Form W-2*. If you receive a *Form W-2c* and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on *Form W-2c* with those reported on your income tax return. If the corrected amounts change your federal income tax, file *Form 1040-X, Amended U.S. Individual Income Tax Return*, with *Copy B* of *Form W-2c* to amend the return you previously filed. If your church will not prepare *Form W-2c* to report additional earned income, you should still report the amount as taxable on your *Form 1040*. You, the taxpayer, have the ultimate responsibility to report all taxable income, even if your church does not properly report the income.

✦ **KEY POINT:** The IRS can assess **intermediate sanctions** in the form of substantial excise taxes (i.e., monetary penalties) against ministers who benefit from an excess benefit transaction. Sanctions only apply to a minister who is a “disqualified person” (i.e., an officer, director, or other control party as well as relatives of such persons). In some cases, the IRS can assess additional penalties against members of a church board that approved an excess benefit transaction.

Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion gift to a minister, gives church property (such as a parsonage) to the minister, loans money to the minister, or sells church property to the minister at an unreasonably low price. Sanctions may be avoided if a transaction or an item of compensation is approved by an independent board on the basis of outside comparable data, such as independent compensation surveys or fair market evaluations, and the basis for the board’s decision is documented.

✦ **KEY POINT:** Treasury Regulations define that disqualified persons receive automatic excess benefits resulting in intermediate sanctions, regardless of amount, if they receive a taxable benefit from the church that is not reported as taxable income either by the church on the disqualified person’s *Form W-2*, or by the disqualified person on his or her *Form 1040* for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches and exposes some ministers and church board members to intermediate sanctions.

Excess benefits are required to be repaid to the church. Ministers also face a “first-tier” penalty of 25% of the amount of the excess benefit from the IRS, plus an

additional “second-tier” tax of 200% of the excess benefit from the IRS if it was not timely returned to the church.

Items not included in taxable income. Some kinds of income are not taxable. These items are called **exclusions**. Most exclusions apply in computing both income taxes and self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes. Some of the more common exclusions for ministers include:

- **Gifts.** Gifts, as defined by the *Internal Revenue Code* and the courts, are excludable from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a tax professional.
 - **Life insurance and inheritances.** Life insurance proceeds and inheritances are excludable from taxable income. Income earned before distributions of proceeds is generally taxable as income.
 - **Employer-paid group life insurance.** Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000. (This exclusion does not apply to individual life insurance policies provided outside of a “group” arrangement.)
 - **Tuition reductions.** School employees may exclude from their taxable income a “qualified tuition reduction” provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution. Highly compensated employees cannot exclude qualified tuition reductions from their gross income unless the same benefit is available on substantially similar terms to non-highly compensated employees. For 2025, the term highly compensated employee refers to any employee whose annual compensation for the look-back year of 2024 exceeded \$155,000. The fact that a **highly compensated employee** must report the value of a tuition reduction in his income for tax reporting purposes does not affect the right of employees who are not highly compensated to exclude the value of tuition reductions from their income.
- ✦ **NEW IN 2025:** For 2026, a highly compensated employee is an employee who received \$160,000 or more in compensation during the look-back year of 2025.

- **Lodging.** The value of lodging furnished to a minister (e.g., a parsonage) is excluded from income. This exclusion is not available in the computation of self-employment taxes. The value of lodging furnished to a non-minister employee on an employer's premises and for the employer's convenience may be excludable from taxable income if the employee is required to accept the lodging as a condition of employment.
- **Educational assistance.** Amounts paid by an employer for an employee's tuition, fees, and books may be excludable from the employee's taxable income if the church has adopted a written educational assistance plan. For 2025, the exclusion may not exceed \$5,250.
- **Employer-provided childcare.** Churches may provide child care to employees through free or reduced fees at a church's child care facility or may reimburse employees for out-of-pocket costs for dependent care if the church has adopted a dependent care plan. The exclusion may not exceed \$5,000 per year. (For tax years beginning after December 31, 2025, the exclusion for dependent care increases to \$7,500.) The amount of employer-provided child care must be considered in calculating the Child and Dependent Care Credit available on an employee's *Form 1040*. The total benefits, both tax-free and taxable, provided through the plan are reported on the employee's *Form W-2* in Box 10.

✪ **KEY POINT:** Some exclusions are available only to taxpayers who report their income taxes as employees and not as self-employed persons. Many, however, apply to both employees and self-employed persons.

In addition to the exclusions discussed above, there are **four other exclusions** commonly available to ministers. Exclusions related to (1) housing allowance, (2) section 403(b) retirement plans, and (3) qualified scholarships are explained below. The exclusion related to (4) the sale of a home is included in the discussion regarding capital gains for Line 7 of *Form 1040*.

1. Housing Allowance

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. While the tax benefit has been challenged in federal courts over the years as an unconstitutional preference for religion, such challenges have failed.

Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing

allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses (see below), and (3) it does not exceed the fair rental value of the home (including furnishings and utilities).

A church cannot designate a housing allowance retroactively. Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church-owned parsonage do not pay federal income taxes on the fair rental value of the parsonage.

§ **TAX TIP:** Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (e.g., utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates, in advance, a portion of their annual church compensation as a parsonage allowance. The amount so designated is not reported as wages on the minister's *Form W-2* at the end of the year. (If the allowance exceeds the actual expenses, the difference must be reported as income by the minister.) This is an important tax benefit for ministers living in a church-provided parsonage.

§ **TAX TIP:** Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans, or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

§ **TAX TIP:** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church membership (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items — assuming in each case that the designation was appropriately adopted in advance by the church.

If a designation is made after the start of a new calendar year, remember that it can only operate prospectively.

The rental value of a parsonage, and a housing allowance, are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing

self-employment (Social Security) taxes **unless they are retired**. The tax code specifies that the self-employment tax does **not** apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

The tax treatment of a housing allowance varies by state, so ministers should check their state income tax rules to determine eligibility for a housing allowance or parsonage exclusion.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues *Form W-2* or *Form 1099-NEC*).

Housing Expenses to Include in Computing Your Housing Allowance Exclusion

A minister who owns or rents his home should take the following expenses into account in computing his housing allowance exclusion:

- Down payment on a home (It is often difficult to exclude the full amount of a down payment for a new home, since a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the housing allowance designated by the church, actual housing expenses, or the fair rental value of a minister's home, including furnishings and utilities.)
- Mortgage payments on a loan to purchase or improve a home (include both interest and principal)
- Rent
- Real estate taxes
- Property insurance
- Utilities (e.g., electricity, gas, water, trash pickup, landline telephone charges, etc.)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (e.g., pest control, etc.)
- Homeowner association dues

❖ **KEY POINT:** In 2007, the Tax Court characterized internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for internet expenses (e.g., internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.

Please note the following:

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.
- The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses, and, for ministers who own or rent their home, does not exceed the fair rental value of their home (including furnishings and utilities).
- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is only effective prospectively. A minister should notify his church if his actual housing expenses are significantly more than the housing allowance designated by his church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (including furnishings and utilities).
- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home, the excess housing allowance should be reported on Line 1h of *Form 1040*.
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on *Schedule SE* (unless they are exempt from self-employment taxes).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

EXAMPLE: A church designated \$25,000 of Pastor D's 2025 compensation as a housing allowance. Pastor D's housing expenses for 2025 were utilities of \$4,000, mortgage payments of \$18,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home (including furnishings but not including utilities) is \$19,000. Pastor D's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of his home (including furnishings and utilities). Stated differently, the nontaxable portion of a housing allowance is the **least** of the following three amounts:

1. The housing allowance designated by the church
2. Actual housing expenses
3. The fair rental value of the home (including furnishings and utilities)

In this case, the lowest of these three amounts is the fair rental value of the home (including furnishings and utilities) (the \$19,000 for the fair rental value of the home, including furnishings, plus the \$4,000 for utilities, for a total of \$23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by his church (\$2,000) as additional income on Line 1h of *Form 1040*.

EXAMPLE: Same facts as the previous example, except the church designated \$12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000 (the church-designated housing allowance) and so this represents the nontaxable amount. Note that Pastor D's actual housing expenses were more than the allowance, and so he was penalized because of the low allowance designated by his church.

EXAMPLE: Pastor Y owns a home and incurred housing expenses of \$12,000 in 2025. These expenses include mortgage (principal and interest), property taxes, utilities, insurance, and repairs. The church designated (in advance) \$12,000 of Pastor Y's 2025 compensation as a housing allowance. Pastor Y is able to itemize expenses on *Schedule A (Form 1040)*. He is able to claim itemized deductions on *Schedule A* for both his mortgage interest and his property taxes (up to \$40,000/\$20,000 if married filing separately), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the "double deduction". In fact, it represents an exclusion and a deduction.

EXAMPLE: In preparing his income tax return for 2025, Pastor H discovers that his church failed to designate a housing allowance for him for 2025. He asks his church to pass a resolution retroactively granting the allowance for 2025. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2025.

- ✦ **KEY POINT:** Federal law makes it a crime to knowingly falsify any document with the intent to influence "the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States ... or in relation to or contemplation of any such matter or case," and this provision contains no exemption for churches or pastors. It is possible that a pastor's backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates federal law, exposing the pastor to a fine or imprisonment. Even if the pastor's action does not

violate federal law under this provision, it may result in civil or criminal penalties under the tax code.

- ✦ **TAX TIP:** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church board, membership, or appropriate committee for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items—assuming in each case that the designation was duly adopted in advance by the church.

How much should a church designate as a housing allowance?

- ✦ **KEY POINT:** The housing allowance is available only if three conditions are met: (1) the recipient is a Minister for Tax Purposes (as defined above), (2) the allowance is compensation for services performed in the exercise of ministry, and (3) the allowance is properly designated by the church.

The IRS has stated that there are no limitations on how much of a minister's compensation can be designated by his employing church as a housing allowance. However, as noted above, this means little, since the nontaxable portion of a church-designated housing allowance for ministers who own or rent their home cannot exceed the lesser of (1) actual housing expenses, or (2) the fair rental value of the home (including furnishings and utilities).

Many churches base the housing allowance on their minister's estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister's anticipated expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should consider unexpected housing costs or inaccurate projections of expenses.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March 2026 that it failed to designate a housing allowance for its pastor for 2026. It is not too late to act. The church should immediately designate

a portion of its minister's remaining compensation for 2026 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year **and all future years unless otherwise provided**. If such a resolution had been adopted in the December 2024 board meeting (i.e., for 2025 and future years), it would not matter that the church neglected to designate a minister's 2026 allowance until March of 2026, since the previous designation would have carried over. Such safety net designations are not a substitute for annual housing allowances (as they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

✦ **KEY POINT:** Churches cannot designate a housing allowance retroactively but only prospectively.

The IRS has ruled that a retired minister is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) a portion of the retired minister's pension income is designated as a housing allowance by his church or the church pension board of a denominational pension fund; (2) the retired minister has severed his relationship with the local church and relies on the fund for a pension; (3) the pensions paid to retired ministers "compensate them for past services to the local churches of the denomination or to the denomination."

Retired ministers who receive benefits from a denominational pension fund will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the rental value of a home (plus utilities) furnished to them by their church as a part of their pay for past services. A deceased minister's surviving spouse cannot exclude a housing allowance or rental value of a parsonage unless the allowance or parsonage is for ministerial services performed, and their surviving spouse has their own eligibility to receive the benefit. Retired ministers who give up their ministerial credentials may also be challenged as to their ability to receive a housing allowance from retirement funds.

The self-employment tax does not apply to the rental value of a parsonage, or a housing allowance provided after a minister retires.

2. Section 403(b) Retirement Plans

Payments made by a church and a minister's salary reduction contributions to a 403(b) plan are not reportable income for income tax or self-employment tax purposes as

long as the total amount credited to a retirement account does not exceed contribution limits under sections 415(c) and 402(g) of the tax code.

Contribution Limits

For 2025, total annual additions (employer contributions, salary reduction and after-tax paid contributions) could not exceed the lesser of 100% of your compensation (excluding a minister's housing allowance) or \$70,000. This rule is known as the "section 415(c) limit". The limit does not include the additional catch-up contributions of \$7,500 that may be contributed through elective deferrals by persons over age 50 (or \$11,250 for those who are 60, 61, 62, or 63). Excess contributions can result in additional taxes and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

There are special rules applicable to church employees. Church employees can make a special election that allows their employer to contribute up to \$10,000 for the year, even if this is more than 100% of compensation. The total contributions over an employee's lifetime under this election cannot be more than \$40,000. This rule assists churches in funding 403(b) plans for bivocational ministers or ministers who designate a large portion of their compensation package to housing allowance. (See discussion below.)

✦ **KEY POINT:** Catch-up contributions are not considered annual additions to a 403(b) plan and can be made in addition to the annual addition limitation. However, catch-up contributions must be designated and must be made to a plan that allows for catch-up contributions.

Minister's Housing Allowance and 403(b) Contribution Limits

Does the term "compensation" include a minister's housing allowance? This is an important question for ministers, since the answer will determine how much can be contributed to a 403(b) plan.

If the housing allowance is treated as compensation, ministers will be able to contribute larger amounts. The tax code specifies that the term "compensation" for purposes of applying the section 415(c) limit to a 403(b)(3) plan "means the participant's includible compensation determined under section 403(b)(3)." Section 403(b)(3) defines compensation to include "the amount of compensation which is received from the employer ... and which is includible in gross income." Section 107 of the tax code specifies that a minister's housing allowance (or the annual rental value of a parsonage) is **not** included in the minister's gross income for income tax reporting purposes. Therefore,

it would appear that the definition of compensation for purposes of computing the section 415(c) limit would *not* include the portion of a minister's housing allowance that is excludable from gross income, or the annual rental value of a parsonage. For many years, the IRS website included the following question and answer addressing this issue:

Q. I am an employee minister in a local church. Each year, my church permits \$25,000 as a yearly tax-free housing allowance. I would like to use my yearly housing allowance as compensation to determine my annual contribution limits (to a TSA) under section 415(c) of the *Internal Revenue Code*. May I do so?

A. No. For purposes of determining the limits on contributions under section 415(c) of the Internal Revenue Code, amounts paid to an employee minister, as a tax-free housing allowance, may not be treated as compensation pursuant to the definitions of compensation under section 1.415-2(d) of the income tax regulations.

✦ **KEY POINT:** Churches that include the housing allowance as compensation when calculating the amount of the church's contribution to 403(b) plans must perform an additional calculation to ensure the total contributions to the plan do not exceed the maximum contribution allowed under section 415(c). This is especially important for ministers who designate a significant portion of their income as housing allowance. It is possible that the amount of contribution required under a denominational plan is greater than the amount legally allowed under the law. In these instances, a church should contact its denominational offices for clarification on the correct amount to contribute to the plan.

Salary Reduction Contributions

In addition to the section 415(c) limit, there is an annual limit on elective deferral contributions (also known as salary reduction contributions). The limit applies to the total of all elective deferrals contributed (even if contributed through different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans.

Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2025, the allowable limit was \$23,500, and for 2026, the allowable limit increases to \$24,500. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of (1) the applicable dollar amount, or (2) the participant's compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount

was \$7,500 for 2025, and the applicable dollar amount is \$8,000 for 2026. For those who are ages 60, 61, 62, or 63, the applicable dollar amount remains \$11,250 for 2025, and the applicable dollar amount remains \$11,250 for 2026. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

The elective deferral limit may also be increased by as much as \$3,000 if the 403(b) plan allows for a 15-year catch-up contribution. This catch-up contribution is in addition to the age-50 catch-up contribution. The eligible amount is subject to an intricate calculation. See *IRS Publication 571* for more information.

3. Qualified Scholarships

Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for enrollment or attendance at an educational institution, or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution.

The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for non-qualified expenses (e.g., room and board).

In addition to these requirements, the scholarship must meet additional requirements if the recipient is an employee or a family member of an employee. Generally, the scholarship must be non-compensatory in nature, selected using non-employment-related criteria, and an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA, EA, or tax attorney to determine the proper treatment of scholarships that include employees and their children as potential recipients.

✦ **KEY POINT:** Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid as compensation for services. It is very difficult for an employee to qualify for a scholarship plan operated by a church due to testing requirements. Therefore, any amounts received by an employee as a scholarship should be considered as taxable income without contrary tax advice from a professional.

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and

board, is not eligible for this exclusion and must be included on the recipient's *Form 1040* on *Schedule 1*, Line 8r.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income.

EXAMPLE: First Baptist Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master's degree at a seminary. Robert applies to the church's scholarship plan and is awarded a scholarship of \$2,500 for 2025. As long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal tax return. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (e.g., fees, books, and supplies), or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated, and the recipient used it for non-qualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on *Form 1099-MISC* or *1099-NEC* to the recipient.

★ **KEY POINT:** A church may not establish a scholarship plan that is solely directed at a small group of potential candidates. For example, a church cannot set up a scholarship plan for its ministers or the children of its ministers. A smaller church may even be limited in establishing a plan solely for its members. To navigate these essential rules, qualified counsel should be sought in developing any scholarship plan for the church.

Part 3: Step-by-step Tax Return Preparation

Tax Forms and Schedules

This step-by-step analysis covers these forms and schedules:

Form 1040 is the basic document you will use. It summarizes all your tax information. Details are reported on supplementary schedules and forms.

Schedule A is for itemized deductions for medical and dental expenses, taxes, interest, certain disaster-related casualty losses and charitable contributions.

Schedule B is for reporting dividend and interest income.

Schedule C is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

Schedule SE is for reporting Social Security taxes due on your self-employment income. Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved *Form 4361* from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 4 of this guide. These forms and schedules are the ones most commonly used by ministers. You can order them at [IRS.gov/forms-pubs/forms-and-publications-by-us-mail](https://www.irs.gov/forms-pubs/forms-and-publications-by-us-mail) or obtain them by calling the IRS at **1-800-TAX-FORM** (800-829-3676). They are also available at [IRS.gov](https://www.irs.gov).

Form 1040

- **SPECIAL NOTE:** The U.S. Treasury is seeking various new laws and reporting requirements related to digital assets, such as cryptocurrencies. As a part of this effort, every taxpayer is required to answer a question on Page 1 of *Form 1040* regarding transactions involving digital assets. A “yes” response is required if a taxpayer has received payment for property or services utilizing a digital asset or disposed of digital assets in any manner.

Step 1: Filing Status

Select the appropriate filing status from the five options listed in this section of *Form 1040*.

Step 2: Name and Address

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse’s name in the space provided in the “Filing Status” section at the top of the *Form 1040*. If you filed a joint return for 2024 and you are filing a joint return for 2025 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2024 return.

If you plan to move after filing your return, use *Form 8822* to notify the IRS of your new address. This form is required to be filed using the paper form and is the best way to inform the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the Social Security Administration (SSA) before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on SSA file must be used in filing your tax return.

Enter your P.O. Box number only if your Post Office does not deliver mail to your home.

For taxpayers with foreign mailing addresses, spaces are available to include the name of the foreign country/province/state and a foreign postal code.

Taxpayers whose main home was in the U.S. for more than half of 2025 must check a new box at the top of the form.

If you want \$3 to go to the presidential election campaign fund, check the box labeled “you”. If you are filing a joint return, your spouse can also have \$3 go to the fund (check “spouse”). If you check a box, your tax or refund will not change.

Step 3: Dependents

The ability to claim a dependent may make taxpayers eligible for other tax benefits, including the Child Tax Credit, educational credits, medical expenses, the Child and Dependent Care Credit, and the Earned Income Tax Credit (EITC), to name a few. In 2025, additional boxes are included to provide information regarding the dependent’s living arrangements during the year, status as a full-time student, and status regarding disability.

Step 4: Income

Several items of income are reported on Lines 1–8 of *Form 1040*, including amounts carried over from *Schedule 1*, Lines 1–10.

Line 1a. Wages, salaries, tips, etc.

As an employee, you should receive a *Form W-2* from your church reporting your wages at the end of each year. Report this amount on Line 1a. If you received a *Form W-2c* correcting wages reported in Box 1, this amount should be used to report on Line 1a.

See “Primer on a Minister’s Income” above for greater detail on the types of taxable income relevant and the various forms of income common to ministers but not included in taxable income.

Line 1h. Other earned income

Use this line to report the amount of excess housing allowance subject to federal income tax.

You may have additional income from your church that was not included in your *Form W-2* and needs to be included on your *Form 1040*. This income should be included on *Form 1040*, *Schedule 1*, Line 8z. See further information below for reporting other taxable income.

Line 2. Interest income; attach *Schedule B* if more than \$1,500

Complete this line if you had interest income. Tax-exempt interest income is reported on Line 2a with taxable interest income reported on Line 2b. If you had taxable dividend and interest income of more than \$1,500, complete *Schedule B*.

Line 3. Dividend income; attach *Schedule B* if more than \$1,500

Complete this line only if you had dividend income. Qualified dividend income is reported on Line 3a and enter all dividend income on Line 3b. If you had dividend and interest income of more than \$1,500, complete *Schedule B*.

Line 4a. IRA distributions

You should receive a *Form 1099-R* showing the total amount of distributions from your IRAs before income tax or other deductions were withheld. This amount should be shown in Box 1 of *Form 1099-R* and should always be reported on Line 4a with any taxable amount reported on Line 4b. The distribution code found in Box 7 also provides direction on the taxation of the distribution and should be considered in completed Line 4b.

Withdrawals from a Traditional IRA taken before age 59½ are generally subject to a 10% penalty tax unless one of

the exceptions applies. Distributions from a Traditional IRA are fully or partially taxable in the year of distribution, depending on whether or not contributions have been deductible or non-deductible. Use *Form 8606* to determine the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

New for 2025 returns are boxes available to indicate if the distribution is a rollover or a qualified charitable distribution (QCD). In both instances, the distribution is not taxable. For a QCD, the amount is not taxable on your *Form 1040* as long as you have obtained a qualifying receipt from the charity receiving the distribution. The amount for either a rollover or a QCD is reported on Line 4a with the appropriate box checked on Line 4c and -0- entered on Line 4b as it applies to that distribution.

A QCD is a distribution made directly by the trustee of your IRA, other than a Simplified Employee Pension (SEP) or SIMPLE IRA, to certain qualified organizations. You must have been at least age 70½ when the distribution was made. The total QCDs for an individual for the year can’t be more than \$108,000. (For 2026, this limit is \$111,000.) Therefore, a couple filing as MFJ in 2025 may each claim up to \$108,000 for a QCD for a total of \$216,000 for the year. If all the requirements are met, a QCD may be nontaxable, but you can’t claim a charitable contribution deduction for a QCD. For more information, see *IRS Publication 526 (Charitable Contributions)* and *IRS Publication 590-B (Distributions from Individual Retirement Arrangements)*, or contact a tax professional.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients. Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA’s required minimum distribution (RMD).

You must also file *Form 8606, Nondeductible IRAs*, if:

- You have basis in the Traditional IRA and you both 1) made a QCD and 2) received a distribution other than the QCD; or,
- The QCD was made from a Roth IRA.

❖ **KEY POINT:** The QCD needs a qualifying receipt from the recipient charity with the mandated “no goods or services” statement. A church may include the gift on the IRA owner’s regular giving statement in an attempt to fulfill this requirement, but care should be taken to not take a deduction for the QCD if it is included on the regular giving statement. The best practice is for the recipient charity or church to issue a separate statement for the gift.

Lines 5a and 5b. Pensions and annuities

Pension and annuity payments include distributions from 401(k) and 403(b) plans. (Distributions from your 403(b) plan are discussed below.) Do not include the following payments on Lines 5a and 5b. Instead, report them on Line 1h:

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.

Many denominational pension funds annually designate 100% of pension and disability benefits paid to retired ministers as a housing allowance. In such cases, the *Form 1099-R* may show that the taxable amount of the pension income is “not determined” by checking the box on Line 2b.

If you are a retired minister, you may exclude all or a portion of your pension or disability income from your gross income reported on *Form 1040* if (1) you can document that the monies were actually spent on housing-related expenses during the tax year, (2) the amount excluded does not exceed the fair rental value of the home (including furnishings and utilities), and (3) the applicable pension board designated the retirement payments as housing allowance.

See the instructions for *Form 1040*, Lines 5a and 5b, for more information.

❖ **KEY POINT:** Surviving spouses of deceased ministers cannot exclude any portion of the benefits received from their deceased spouse’s 403(b) account as a housing allowance.

General Rules Regarding Taxation of Distributions from a 403(b) Plan

Amounts you contribute through employer discretionary contributions, employee salary reduction contributions, and the earnings attributable to these contributions, generally cannot be withdrawn until an employee:

- Reaches age 59½
- Has a severance from employment
- Dies
- Becomes disabled
- Encounters financial hardship (See IRS *Publication 571*.)

Hardship distributions may be made from salary reduction contributions, including earnings, qualified non-elective employer contributions, and qualified and/or employer

matching contributions. However, a 403(b) plan may make hardship distributions only if permitted by the plan. The allowable situations considered as hardship changes and new changes may require a church to amend its 403(b) plan prior to permitting hardship distributions from these additional resources.

Once amounts are distributed, they are generally taxable as ordinary income unless designated in advance as a minister’s housing allowance. In addition, if amounts are distributed prior to reaching age 59½, you will be assessed an additional tax of 10% of the amount which is includible in income unless one of several exceptions applies, including the following:

- The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries and after you separate from service.
- The distributions are made after you separate from service in or after the year in which you reach age 55.
- The distributions do not exceed the amount of unreimbursed medical expenses that you could deduct for the current year.
- The distributions are made after your death, or after you become totally and permanently disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order (QDRO).
- The distribution is related to the birth or adoption of a child (limited).
- The distribution is in connection with a federally declared disaster (limited).
- The distribution is made to someone who is terminally ill.
- The distribution is related to a qualified disaster (limited).
- The distribution is related to an unforeseen emergency (limited).
- The distribution is related to a victim of domestic abuse (limited).

For certain taxpayers, a required minimum distribution (RMD) is the minimum amount you must withdraw from your account each year. Calculating your RMD can be difficult. Basically, it is the account balance as of the end of the immediately preceding calendar year, divided by a distribution period from the IRS *Uniform Lifetime Table*. The RMD rules also apply to IRAs, so be sure to consider all applicable retirement accounts in calculating the annual RMD.

The beginning date for your first RMD for a 403(b) plan is April 1 of the year following the calendar year in which you obtain the applicable age. This age is determined based on a person's year of birth. For those born between January 1, 1951, and January 1, 1960, the applicable age is 73, and for those born on or after January 1, 1960, the applicable age is 75. The IRS website contains helpful resources for computing your required distribution amounts and payouts, and plan administrators maintain software to assist in determining the correct amount of the distribution based on the current law's application to a person's individual situation. It is a taxpayer's responsibility to be aware of the RMD requirements and to notify the appropriate custodians of retirement funds to initiate the payments.

- ✦ **KEY POINT:** Many denominational pension plans assist with calculating RMDs.
- ✦ **KEY POINT:** Funds held in Roth accounts of 403(b) plans are not subject to the RMD rules during the lifetime of the employee.

▲ **CAUTION:** If you do not take any required distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. However, the excise tax drops to 25%, and possibly 10%, if the RMD is timely corrected within two years. *Form 5329* should be filed for any year in which the full amount of the RMD was required, but not taken.

Lines 6a and 6b. Social Security benefits

- ✦ **KEY POINT:** Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

If the only income you received during 2025 was your Social Security benefits, your benefits generally aren't taxable. But some taxpayers must pay federal income taxes on their Social Security benefits (retirement, survivor, and disability). This occurs if you have other substantial income in addition to your benefits (such as wages, self-employment income, interest, dividends, and other taxable income that must be reported on your tax return).

If you:

- **File a federal tax return as an individual or married filing separately** and your **combined income** is
 - o Between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits.
 - o More than \$34,000, up to 85% of your benefits may be taxable.
- **File a joint return**, and you and your spouse have a **combined income** that is

- o Between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of your benefits.
- o More than \$44,000, up to 85% of your benefits may be taxable.

Your combined income is your AGI plus nontaxable interest and one-half of your Social Security benefits.

▲ **CAUTION:** Many churches employ persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years and for persons born in 1960 or later it is age 67. If you are under full retirement age for the entire year, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit. That limit is \$23,400 for 2025 and \$24,480 for 2026.

In the year you reach full retirement age, your monthly benefit payments are reduced by \$1 for every \$3 you earn above a different limit. For 2025, that limit was \$62,160 (\$5,180 per month) and in 2026, it is \$65,160 (\$5,430 per month), but only earnings before the month you reach full retirement age are considered for the benefit reduction. Starting in the month you reach full retirement age, earnings no longer create a reduction in your Social Security benefits. However, the determination of the reduction in benefits due to earnings most likely affects the amount of benefits paid in a following year. Since there is no ability for the determination of the reduction amount to be made at the point of earnings, it is determined on a lookback method, with a reduction in future benefits applied.

Each January, you will receive *Form SSA-1099, Social Security Benefit Statement* showing the amount of benefits you received in the previous year. You can use this *Benefit Statement* when you complete your federal income tax return to find out if your benefits are subject to tax.

For additional information on the taxability of Social Security benefits, see *IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits*.

Line 7. Capital gain or (loss)

Report on Line 7 capital gains or losses (attach *Schedule D*) from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on *Schedule D*. You also may have to file *Form 8949*. (See the instructions to both forms for details.)

- ★ **KEY POINT:** *Schedule D* is for reporting capital gains and losses from investments. *Schedule 1*, Line 4 (“other gains or losses”) is for reporting sales of other assets such as equipment used in a business.

Sale or Exchange of Your Principal Residence

A personal residence is a capital asset that is utilized for personal purposes. While losses from the sale of a residence are not deductible, the gain from the sale of a personal residence may be taxable. A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if MFJ) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange.

A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances, is able to exclude an amount equal to the fraction of the \$250,000 (\$500,000 if MFJ) that is equal to the fraction of the two years that the ownership and use requirements are met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply. See IRS *Publication 523* for details.

Line 8. Additional income

Income not reported on Lines 1–7 is reported on *Schedule 1* with the total reported on *Schedule 1* reported on Line 8 of *Form 1040*. The most important of these for ministers include:

1. Line 3 (Schedule 1). Business income or (loss)

Report self-employment earnings (from *Schedule C*). Self-employment earnings include:

- Compensation reported to you on *Form 1099-NEC*
- Fees received directly from church members for performing personal services (such as weddings and funerals)
- Honoraria you received for guest speaking in other churches

If you received income from any of these kinds of activities, compute your net earnings on *Schedule C* and transfer this amount to Line 3 of *Schedule 1* (*Form 1040*).

2. Line 8 (Schedule 1). Other income

Other income is reported on Line 8 of *Schedule 1* (*Form 1040*). Other income includes the following items:

- Net operating losses from a prior year
- Winnings from gambling (losses are only deductible on *Schedule A*)

- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on *Schedule C*)
- Most prizes and awards
- Some taxable distributions from a Health Savings Account (HSA) or Archer Medical Savings Account (MSA) (See IRS *Publication 969*)
- Jury duty pay
- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within three years of the contribution
- Taxable portion of scholarships received
- Taxable benefits provided by the church but not included on *Form W-2* or *Form W-2c* (Also remember to include these benefits on *Schedule SE* for the calculation of self-employment tax)

Line 9. Total income

Report total income on this line. This is the sum of the amounts reported on Lines 1–8 of *Form 1040*, plus the additional categories of income reported on Lines 1–9 of *Schedule 1* (*Form 1040*) included on Line 8 of *Form 1040*.

Step 5: Adjustments to Income

Line 10. Adjustments to income

You may deduct certain adjustments from total income (Line 9) to compute your AGI. Report the total of adjustments on Lines 11–25 of *Form 1040* (*Schedule 1*) and on Line 10 (*Form 1040*). The total amount on Line 10 is subtracted from Line 9 (*Form 1040*) to compute AGI that is reported on Line 11.

The two most relevant adjustments for ministers are the deduction for half of SECA taxes and payments to an IRA. Both are summarized below.

1. Line 15 (Schedule 1). Deductible part of self-employment tax

- ★ **KEY POINT:** Every minister who pays self-employment taxes on ministerial income qualifies for this deduction. Some are not claiming it.

All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct half of their actual self-employment taxes as an adjustment on Line 15 (*Schedule 1*) of *Form 1040*, whether they are able to itemize deductions on *Schedule A* or not.

2. Line 20 (Schedule 1). IRA deduction

An IRA is a personal savings plan which allows you to set aside money for retirement, while offering you tax advantages. You can set up different types of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.

The original IRA is referred to as a **Traditional IRA**. A Traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a Traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your Traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be jointly owned. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

To contribute to a Traditional IRA, you or your spouse (if you file a joint return) must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income, or as deferred compensation.

If you file a joint return, you may be able to contribute to an IRA even if you did not have taxable compensation as long as your spouse did. Each spouse can contribute up to the current limit; however, the total of your combined contributions cannot be more than the taxable compensation reported on your joint return.

For 2025 returns (filed in 2026), if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the lesser of the following two amounts: (1) \$7,000 (\$8,000 if you are age 50 or older), or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse's IRA contribution for the year to a Traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse.

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2025 IRA contribution must be made by April 15, 2026, even if you obtain an extension for filing this return.

❶ **EXAMPLE:** A church has a senior pastor who is age 52, and a youth pastor who is age 30. The church does not participate in a retirement program for its staff. In 2025, the senior pastor can contribute \$8,000 to an IRA (maximum annual contribution of \$7,000 plus a catch-up contribution of \$1,000), and the youth pastor can contribute \$7,000.

Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an employer-provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. For 2025, if you were covered by an employer-provided retirement plan, the deduction for contributions to your IRA was completely phased out when AGI reached \$146,000 (MFJ) or \$89,000 (single). For 2026, the limits are \$149,000 (MFJ) and \$91,000 (single).

If your spouse was covered by an employer retirement plan at any time during 2025 and you were not covered and made contributions to your IRA, your allowable IRA deduction is completely phased out when AGI reaches \$246,000 (MFJ). For 2026, the deduction is phased out when AGI reaches \$252,000. See IRS *Publication 590-A*. The *Form W-2* you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The "Retirement Plan" box should have a mark in it if you were covered. Employer retirement plans include 403(b) Tax Sheltered Annuities (TSAs).

Figure your deduction using the worksheets in the instructions to *Form 1040* or in IRS *Publication 590-A*.

Individuals who cannot claim a deduction for an IRA contribution still can make non-deductible IRA contributions, subject to the lesser of \$7,000 (\$8,000 if you are age 50 or older) for 2025 or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and non-deductible contributions were made to the IRA. *Form 8606* is used to designate a contribution as non-deductible and must be filed or the full amount of future withdrawals may be taxed.

A Roth IRA differs from a Traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make non-deductible contributions to a Roth IRA. However, you may be limited in the amount of non-deductible contributions you may make to your Roth IRA due to your AGI. For those filing as MFJ, no contribution may be made to a Roth IRA in 2025 if your AGI, as modified, is \$246,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$165,000 or more. For those filing as MFJ, no contribution may be made to a Roth IRA in 2026 if your AGI, as modified, is \$252,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$168,000 or above.

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a Traditional IRA, a Roth IRA can be set up, but the limitations on the amount that can be contributed and the time for making contributions are the same as for a Traditional IRA. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to IRS *Publication 590-A* for additional information on Roth IRA(s).

For information on conversions from a traditional IRA to a Roth IRA, refer to IRS *Publication 590-A*.

Line 11. Adjusted Gross Income (AGI)

Adjusted Gross Income (AGI) is gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, retirement distributions as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account. Your AGI will never be more than your Gross Total Income on your return and, in some cases, may be lower.

AGI is an important number since it is used to determine the amount or availability of various deductions and credits. However, several deductions are based on modified AGI. This term refers to AGI that includes certain additions or subtractions before it is used to determine the deduction or the credit. The new *Schedule 1-A* Part I calculates this amount.

Step 6: Tax Computation

After AGI is determined, other deductions are available to determine taxable income. For 2025, several new deductions are available and are reported on *Schedule 1-A*.

Line 12. Standard deductions or itemized deductions

KEY POINT: Itemize your deductions on *Schedule A* only if they exceed the standard deduction for your filing status.

On Line 12, enter either your itemized deductions from *Schedule A* or a standard deduction amount. Itemized deductions are discussed under *Schedule A* in this guide. For 2025, the standard deduction amounts are as follows:

Filing Status and Standard Deduction Amount (2025)	
Single	\$15,750
Married filing jointly or qualifying widow(er)	\$31,500
Married filing separately	\$15,750
Head of household	\$23,625

Additional standard deductions are available for each taxpayer who is over age 65 and/or blind, depending on their filing status.

Line 13a. Qualified business income deduction

Ministers who have income from business activities (conducted other than in their capacity as an employee of the church) and report their income on *Schedule C*, may be entitled to a federal tax deduction of up to 20% of their qualified business income (QBI). This deduction is also referred to as the IRC section 199A deduction. Section 199A limits the deduction to the lesser of 1) 20% of the QBI less one-half of the self-employment tax directly related to the QBI, the self-employed health insurance deduction and the self-employed qualified plan contribution deduction related to the qualified business, or 2) 20% of taxable income before the QBI deduction less net capital gains.

The qualified business trade or business activities of ministers who report their federal income taxes as self-employed is considered a “specified service trade or business”. Thus, there may be an exception to the deductibility of the QBI deduction. If a minister’s taxable income (reported on Line 15 of the *Form 1040*) before this deduction exceeds \$197,300 (\$394,600 if MFJ) for 2025, then the deduction may be limited; if taxable income exceeds \$247,300 (\$494,600 if MFJ) for 2025, then the deduction is unavailable. Attach either *Form 8995* or *8995-A* and possibly *Schedules A, B, and C (Form 8995-A)*, as needed.

Line 13b. Additional deductions from Schedule 1-A

The new deductions authorized by the One Big Beautiful Bill Act are calculated on *Schedule 1-A* and reported on Line 13b on *Form 1040*.

Part II – No Tax on Tips. A deduction, not to exceed \$25,000, is available for taxpayers working in designated industries and receiving qualified tips. The employer or payer is required to provide this information to the taxpayer. The IRS announced that it will treat 2025 as a transitional year and will not update *Form W-2* or *Form 1099*. It also said that no penalties will be assessed for 2025 for failure to separately report amounts reasonably designated as cash tips or failure to report the occupation of the individual receiving tips. Eligible occupations for the qualified tips deduction were also announced. The IRS encourages employers to find other acceptable methods to communicate this information to employees for the 2025 tax year, including utilizing Box 14 on the 2025 *Form W-2*. For 2026–2028, the information will be included on *Form W-2* or *Form 1099-NEC*. The deduction starts to phase out at \$150,000 of MAGI (\$300,000 if filing MFJ). (This deduction is only available for taxpayers receiving tips associated with qualifying trades or businesses.)

Part III – No Tax on Overtime. A deduction, not to exceed \$12,500 (\$25,000 if MFJ), is available for qualified overtime pay. This information is required to be provided to the taxpayer by the employer. The IRS announced that it will treat 2025 as a transitional year and will not update *Form W-2* or *Form 1099*. It also said that no penalties will be assessed for 2025 for failure to separately report the total amount of qualified overtime compensation. The IRS encourages employers to find other acceptable methods to communicate this information to employees for the 2025 tax year, including utilizing Box 14 on the 2025 *Form W-2*. For 2026–2028, the information will be included on *Form W-2* in Box 12. The deduction starts to phase out at \$150,000 of MAGI (\$300,000 if filing MFJ).

Part IV – No Tax on Car Loan Interest. A deduction is available for interest expense paid on a qualified passenger vehicle loan. The auto must be new, and its final manufacturing process must occur within the U.S. The deduction is limited to \$10,000, and the deduction starts to phase out at \$100,000 of MAGI (\$200,000 if filing MFJ).

Part V – Enhanced Deduction for Seniors. For taxpayers born prior to January 2, 1961, and who have a valid SSN, a new deduction of \$6,000 is available. This deduction begins to phase out at a MAGI of \$75,000 (\$150,000 if filing MFJ).

Line 16. Compute tax

Most ministers can use the tax tables to determine their income taxes. Some higher-income ministers must use the tax rate schedules. (A spouse's income is considered in deciding whether or not to use the tax rate schedules.)

Step 7: Credits

A credit is a direct dollar-for-dollar reduction in your tax liability. It is more valuable than deductions or exclusions which merely reduce taxable income. There are two types of credits. Non-refundable credits can only offset total taxes and can never create a refund. These credits are reported on Lines 19 and 20 of *Form 1040*.

Refundable tax credits are reported on *Form 1040* as a payment along with other tax payments and may create a refund if total payments exceed total tax calculated on Line 24 of *Form 1040*. These credits are reported on Lines 27–31 of *Form 1040*.

Lines 19 and 28. Child Tax Credit

The Child Tax Credit for 2025 is \$2,200 per qualifying child under the age of 17 and \$500 per qualifying dependent that does not meet the definition of a qualifying child. The \$500 per qualifying dependent is a non-refundable credit and is reported on Line 19. A portion of the credit associated with

a qualifying child may be non-refundable, reported on Line 19, and a portion of the credit is refundable and reported on Line 28. This is referred to as the Additional Child Tax Credit (ACTC) and the maximum amount of the refundable portion of the credit is \$1,700 per qualifying child. The credit is reduced based on a taxpayer's MAGI starting at \$400,000 for jointly filed returns and \$200,000 for all other filers. It is completely phased out at \$480,000 for jointly filed returns and \$240,000 for all other filers. The credit is calculated on *Form 8812*.

Line 20, Schedule 3. Other available credits

On the 2025 *Form 1040*, non-refundable credits are reported on Lines 1–7 of *Schedule 3*, and the total amount for all credits is carried over to Line 20 of *Form 1040*.

The more common and important non-refundable credits for ministers reported on *Schedule 3* are listed below, along with the IRS form and publication that addresses them:

- **The credit for child and dependent care expenses (*Form 2441*, *IRS Publication 503*)** The Child and Dependent Care Credit is a tax credit that may help you pay for the care of eligible children and other dependents (qualifying persons). The credit is calculated based on your income and a percentage of expenses that you incur for the care of qualifying persons to enable you to go to work, look for work, or attend school.

Depending on income, taxpayers can get a credit up to 35% of their qualifying childcare expenses. At minimum, the credit is 20% of those expenses. For 2025, the maximum eligible expense for the credit is \$3,000 for one qualifying person and \$6,000 for two or more.

This credit may interplay with benefits provided through a church's dependent care plan, so information reported on *Form W-2* Box 10 may be necessary to accurately compute this credit.

- **The credit for education expenses (see *Form 8863* and *IRS Publication 970*)** Credits for higher education include the American Opportunity Tax Credit (partially refundable, reported on Line 29) and the Lifetime Learning Credit (non-refundable). Credits are fully phased out at \$180,000 for those MFJ and \$90,000 for all other filers.
- **The retirement savings credit (*Form 8880*, *IRS Publication 590-A*)** If you make eligible contributions to certain eligible retirement plans or to an IRA, you may be able to take a tax credit up to \$1,000. The amount of the Saver's Credit you can get is generally based on the contributions you make and your credit rate. Refer to *IRS Publication 590-A* or the instructions for *Form 8880* for more information. The credit is phased out at \$79,000

of AGI for those MFJ, at \$59,250 for those filing head of household, and at \$39,500 for those filing single or married filing separately.

NOTE: There are other credits available that are considered refundable credits. These are credits that are not limited to the amount of federal income tax calculated. The credits are reported on Lines 27, 28, 29, and 30 of *Form 1040*.

Step 8: Other Taxes

Line 23 (*Form 1040*), Line 21 (*Schedule 2*). Other taxes

Form 1040 is also used to report other taxes in addition to federal income tax. These taxes are reported on *Schedule 2*, Lines 4–20, with the total reported on Line 23 of *Form 1040*. These taxes include, but are not limited to:

- Self-employment tax
- Household employment taxes
- Additional Medicare tax
- Net investment income tax

Each of these taxes are separately calculated on the applicable schedule and then summarized on *Schedule 2*.

Step 9: Payments

On *Form 1040* for 2025, amounts representing federal income tax withholding are reported on Line 25 and estimated tax payments are reported on Line 26 as well as tax overpayments from the prior year applied to current year taxes. Other tax payments are reported on *Schedule 3* and reported on Line 31 of *Form 1040*. The two most important categories of tax payments are withheld taxes and estimated tax payments, as noted below.

Line 25. Federal income tax withheld

Federal income tax may be withheld from several sources of income. *Form 1040* separately reports withholding from some of these different potential sources.

Line 25a – Federal income tax withheld from *Forms W-2*

Ministers' wages based on the performance of ministerial services are exempt from mandatory federal income tax withholding. As a result, only those ministers who requested a voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister's *Form W-2*.

❖ **KEY POINT:** Ministers who request voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not

withhold the employee's share of **Social Security and Medicare taxes**, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on *Form W-4* or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on *Forms W-2* and *941*) rather than the employee's share of Social Security and Medicare taxes. They constitute a payment that can be applied to both income taxes and self-employment taxes. Ministers still must complete *Schedule SE* to report their self-employment tax liability.

Line 25b – Federal income tax withheld from *Forms 1099*

Federal income tax may be withheld from pension payments or distributions reported on *Form 1099-R* or from Social Security payments reported on *Form SSA-1099* or from other income reported on *Form 1099-NEC*. Other potential sources may be from interest and dividends reported on *Form 1099-B*.

Line 25c – Federal income tax withheld from other forms

Income tax withheld from gambling winnings reported on *Form W-2G* or Additional Medicare Tax as calculated on *Form 8959* is included on this line.

Line 26. Estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and Social Security (self-employment) taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The estimated tax procedure is summarized in Part 2 of this guide in the section "How do ministers pay their taxes?"

The total amount of estimated tax payments made to the IRS for the 2025 tax year is reported as a payment of taxes on Line 26 of *Form 1040*. Additionally, any amount of an overpayment from 2024 applied to the 2025 estimated tax payments is included on this line.

Lines 27, 28, 29, and 30.

There are other credits available that are considered refundable credits. These are credits that are not limited to the amount of federal income tax calculated. The credits are reported on Lines 27, 28, 29, and 30 of *Form 1040*. (There are also some refundable credits reported on *Schedule 3* and carried to Line 31 on *Form 1040*.)

The most common refundable credits for ministers are listed below, along with the IRS form and publication that addresses them:

- The Earned Income Credit (EIC) reported on *Form 1040* Line 27 (addressed below) (See IRS Publication 596.)

- Child Tax Credit calculated on *Form 8812* reported on Line 28 of the *Form 1040* (See previous discussion in this guide.)
- American Opportunity Tax Credit calculated on *Form 8863* and reported on Line 29 of *Form 1040* (See *IRS Publication 970*.)
- Adoption Tax Credit calculated on *Form 8839* and reported on Line 30 of *Form 1040*

Line 27. Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) reduces tax you owe and may give you a refund even if you do not owe any tax. Several technical requirements must be met to qualify for this credit. Unfortunately, many taxpayers who qualify for the credit do not claim it due to its complexity. Additionally, ministers encounter greater complexities due to the effect of an approved exemption from self-employment tax on the credit calculations.

In most cases, the amount of your EITC depends on: (1) whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children; and (2) the amount of your earned income and AGI.

You may be able to claim the EITC for tax year 2025 if you have non-retirement investment income of \$11,950 or less. The maximum EITC for 2025 is (1) \$649 with no qualifying child, (2) \$4,328 with one qualifying child, (3) \$7,152 with two qualifying children, and (4) \$8,046 with three or more qualifying children.

If you qualify, the EITC reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Depending on your situation, the credit can be as high as \$8,046 for 2025.

You cannot take the credit for 2025 if your earned income (or AGI, if greater) is more than:

- \$19,104 (\$26,214 if MFJ) if you do not have a qualifying child
- \$50,434 (\$57,554 if MFJ) if you have one qualifying child
- \$57,310 (\$64,430 if MFJ) if you have two qualifying children
- \$61,555 (\$68,675 if MFJ) if you have three or more qualifying children

You can compute the credit yourself, or the IRS will compute it for you. To figure the amount of your credit, you must use the EITC Worksheet and EITC Table in the instructions for *Form 1040*, Line 27. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

The credit is reported on Line 27 of *Form 1040*.

Ministers and Earned Income. The tax code defines earned income for the credit to include wages, salaries, and other employee compensation that is included in gross income and net earnings from self-employment as adjusted for the deduction for half of self-employment tax. *IRS Publication 596* explains how this definition applies to ministers: “The rental value of a home or a housing allowance provided to a minister as part of the minister’s pay generally isn’t subject to income tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the [EIC]” except for ministers who have opted out of self-employment taxes by filing a timely *Form 4361* exemption application with the IRS.

Ministers who are employees for income tax reporting purposes and who have **not** exempted themselves from self-employment taxes by filing a timely *Form 4361* with the IRS **include** their housing allowance or the fair rental value of a parsonage in computing earned income for purposes of the EITC. Ministers who have filed *Form 4361* and claim the exemption from self-employment tax may **not include** either the housing allowance or other outside income from ministerial activities, since this income is not included in net earnings from self-employment.

For 2025, if the taxpayer is a minister, *Form 1040* has added a box to check on Line 27b. This alerts the IRS to the potential complications created by the applications of the law to ministers as the credit has been miscalculated by both taxpayers and the IRS in the past.

The result of the application of the definition of earned income is that two ministers earning the same compensation may **not** be entitled to the same credit, if one of them has timely filed *Form 4361*. Ministers who are affected by this issue should consult their tax professional for help.

✪ **KEY POINT:** The definition of earned income for the EITC is not the same definition of earned income utilized in calculating the Additional Child Tax Credit.

✪ **KEY POINT:** Once again, tax benefits may be affected by the housing allowance. Ministers should consider these various provisions and determine if the housing allowance is beneficial for them, considering how it affects the EITC and the Additional Child Tax Credit.

Step 10: Refund or Amount You Owe

Lines 34 and 37. Refund or amount you owe

After totaling your payments on *Form 1040*, Line 33, you can calculate whether you owe the government, or whether a refund is due to you.

A refund will be indicated on Line 34. If you have overpaid your taxes, you have two options: (1) request a full refund on Line 35a, or (2) apply the overpayment to your 2026 estimated tax on Line 36. If a refund is requested, it is important to complete the banking information on Line 35 as no paper refund checks will be issued.

If you owe taxes, the amount will be indicated on Line 37. If you owe taxes, you also may have to pay an underpayment penalty. The underpayment penalty is calculated on *Form 2210* and is stated on Line 38 of *Form 1040*. The penalty should be combined with the tax due, calculated as the difference between Line 24 and Line 33 for the total amount due to the IRS and reported on Line 37. If an amount is due to the IRS, be certain to check on the status of the transition to electronic payments currently underway with the IRS (as noted above and below). You may need to make electronic payment through one of the payment methods available at [IRS.gov/payments](https://www.irs.gov/payments) or through the help of your tax practitioner as part of electronically filing your federal tax return through the practitioner's software.

If you are paying taxes after April 15, 2026, you may also owe late payment penalties and interest. There is no form for calculating these penalties and interest. It is possible for tax preparation software to calculate these amounts, or the IRS will send a notice for the additional amount due after it has processed the tax return.

▲ CAUTION: Beginning September 30, 2025, the IRS began phasing out paper checks as the agency transitions all payments, both to and from the IRS, to electronic. Prior to making any payments to the IRS in 2026 utilizing a paper check, taxpayers should check the status of this transition.

Step 11: Sign Here

You must sign and date the return at the bottom of Page 2. If you are filing a joint return, your spouse must also sign the return. In the "your occupation" space, enter your occupation — **minister**. If you have your return prepared by a paid preparer, you will sign *Form 8879*, IRS e-file *Signature Authorization* instead of signing *Form 1040*, Page 2.

If you or your spouse has been the victim of identity theft, the IRS will issue you an Identity Protection PIN that must also be entered in this section of the return. This PIN is issued to you each year. (The PIN must also be provided to your paid tax preparer for the return to be electronically filed.)

Other Forms and Schedules

Schedule A

★ **KEY POINT:** If your itemized deductions exceed your standard deduction, you should report your itemized

deductions on *Schedule A (Form 1040)*. This section will summarize the itemized deductions.

Step 1: Medical and Dental Expenses (Lines 1–4)

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on *Schedule A*, but only to the extent that your expenses exceed 7.5% of your AGI. You must reduce your medical expenses by reimbursements you receive for those expenses before applying the 7.5% test. Reimbursements include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, doctor, or hospital.

The following expenses ARE deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay (Proposed regulations suggest that amounts paid to health cost-sharing arrangements may be deductible. Seek professional assistance to determine the status of this potential deduction.)
- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- The supplemental part of Medicare insurance (Medicare Part B)
- Medicare D premiums you pay
- Medicare supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (e.g., false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2025, the standard mileage rate for medical travel was 21 cents per mile. For 2026, the standard mileage rate for medical travel is 20.5 cents per mile.
- Medicines and drugs requiring a prescription, and insulin
- The portion of a life-care fee or founder's fee paid either monthly or in a lump sum under an agreement

with a retirement home that is allocable to medical care

- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

The following items are NOT deductible as medical expenses:

- The cost of diet food
- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Non-prescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trips for general improvement of health
- Most cosmetic surgery

Step 2: Taxes You Paid (Lines 5–7)

At the election of the taxpayer, an itemized deduction may be taken for state and local general sales taxes or for state and local income taxes. This provision is intended to equalize treatment for taxpayers not living in states with a state income tax.

Taxpayers may claim an itemized deduction of up to \$40,000 (\$20,000 for a married taxpayer filing a separate return) for the aggregate of:

- State and local property taxes, and
- State and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year.

Taxpayers whose AGI is more than \$500,000 (\$250,000 if married filing separately) have a reduced deduction and may be limited to \$10,000.

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities

that would grant tax credits in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

Step 3: Interest You Paid (Lines 8–10)

★ **KEY POINT:** Interest paid on qualified vehicle loans may be deductible on *Form 1040 Schedule 1-A*.

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer's principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.

Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and which secures the residence. Note the following two rules:

1. Limit on loans taken out on or before December 15, 2017

For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1 million (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987. (See IRS *Publication 936* for more information about loans taken out on or before October 13, 1987.)

See IRS *Publication 936* to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1 million (\$500,000 if you are married filing separately).

2. Limit on loans taken out after December 15, 2017

For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1 million limitation discussed above, the \$750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the \$1 million limit. An exception exists for certain loans taken out after December 15, 2017. See IRS *Publication 936* for details.

The term "points" is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is **only** for

the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

1. Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)
2. Paying points is an established business practice in the area where the loan was made.
3. The points paid were not more than the points generally charged in that area.
4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
6. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.
7. You use your loan to buy or build your main home.
8. The points were computed as a percentage of the principal amount of the mortgage.
9. The amount is clearly shown on the settlement statement (such as the *Settlement Statement, Form HUD-1*) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller's.

❖ **KEY POINT:** Points are not currently deductible when paid in association with the refinancing of the home. These points must be amortized over the life of the new mortgage.

Refinancing a home mortgage may also create tax considerations. The amount of the new debt eligible as home acquisition debt is limited to the amount of the balance of the original old mortgage principal just before the refinancing unless additional proceeds are used to buy, build, or substantially improve a qualified home. If refinancing costs are rolled into the new debt, there automatically will be a portion of the interest paid on the new mortgage that is not deductible.

❖ **KEY POINT:** The itemized deduction for mortgage insurance premiums is not available for 2025, but it has been restored for tax years beginning after 2025.

Step 4: Gifts to Charity (Lines 11-14)

For 2025, cash contributions to churches, schools, and most other public charities that are U.S. organizations are deductible up to 60% of AGI. Contributions of property or cash contributions to supporting organizations, donor-advised funds, or to private foundations are subject to different limitations. See IRS *Publication 526*. Contributions made via cash, checks, credit cards, or other electronic transfer options are reported on Line 11, while contributions of non-cash property are reported on Line 12.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile.

Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. Individuals performing charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on *Schedule A*.

❖ **KEY POINT:** Whether it is for travel expenses or other substantial out-of-pocket expenses related to performing services for a church or other nonprofit charity, a letter acknowledging the individual's service and containing the "no goods or services" statement (if this is the case) should be obtained from the church or charity.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel. Therefore, it is important to maintain a detailed itinerary of ministry activities performed on the trip to prove the charitable nature of the trip.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity—it is deductible in the year the check is mailed and postmarked, even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60% of AGI (2025). In some cases, contributions that exceed this limit can be carried over and claimed on future returns for up to five years. Some charitable

contributions are limited to 20% or 30% of AGI, depending on the recipient and the form of the contribution.

Restricted contributions are those made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes. Restricted contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds designating a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not designate a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than \$250 may be substantiated by a canceled check, other bank record, or a receipt from the charity. Special rules govern the substantiation of individual contributions of cash or property of \$250 or more. The donor must substantiate these contributions with a qualifying receipt from the charity that includes a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the Part 5 supplement of this guide, the *2026 Federal Reporting Requirements for Churches*.

❖ **KEY POINT:** It is the responsibility of the donor to confirm that all donations claimed are supported by qualifying receipts. The consequence of failure is a loss of any contribution not supported by a qualifying receipt. This error cannot be corrected if discovered after the tax return is filed. Some churches and charities fail to issue qualifying receipts, so donors must be vigilant in meeting this requirement since this is not an error that can be corrected after your tax return is filed.

If you contribute property that you value at \$500 or more, you must include a completed *Form 8283* with your *Form 1040*. Complete only Section A if the value claimed is \$500 or more but less than \$5,000. If you claim a deduction of more than \$5,000 for a contribution of non-cash property

(other than publicly traded securities), you must obtain a qualified appraisal of the property by a qualified appraiser and include a qualified appraisal summary (Section B of *Form 8283*) with your *Form 1040*. If several related items are given, each with a value of less than \$5,000, an appraisal may still be required since the group of items would be treated as one rather than on an individual basis. In addition to the above rules, the donor must also obtain a qualifying acknowledgment from the charity that includes a description of the property and a statement that there were no goods or services provided in exchange for the donation.

💰 **TAX TIP:** There are both timing and form requirements for the qualifying appraisal, so a donor must plan accordingly to be able to meet these requirements. Failure to meet any of the requirements can nullify the entire contribution.

Special rules apply to donations of cars, boats, and planes. A donation is not allowed if the value of the item is \$500 or more unless the donor has received *Form 1098-C*. See the instructions to *Form 1098-C* for details.

❖ **KEY POINT:** The Tax Court has ruled in several cases that a donor who contributed property worth more than \$5,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute that the gift was given, or its value, because the donor failed to obtain a qualified appraisal or attach a qualified appraisal summary (*Form 8283*) to the tax return on which the contribution was claimed or obtain a qualifying receipt.

See IRS *Publication 526* for an explanation of all the substantiation rules that apply to charitable contributions.

Step 5: Casualty and Theft Losses (Line 15)

In general, casualty and theft losses of personal-use property not connected with a trade or business, or with a transaction entered into for profit, are deductible only if the loss is attributable to a federally declared disaster. In general, losses attributable to a federally declared disaster are deductible to the extent that:

1. The amount of each separate casualty or theft loss is more than \$100, and
2. The total amount of all losses during the year (reduced by \$100) is more than 10% of the amount on *Form 1040* or *1040-SR*, Line 11. See the Instructions for *Form 4684* and IRS *Publication 547* for more information.

It doesn't matter how many pieces of property are involved in an event. Only a single \$100 reduction applies.

Personal casualty losses attributable to a qualified disaster loss are not subject to the 10% of AGI reduction, and the \$100 reduction is increased to \$500. A "qualified" disaster is one

declared by the president between January 1, 2020, and September 2, 2025.

The deduction may be claimed in the year the disaster occurred or for the immediately preceding tax year. For further information, see the instructions for *Form 4684*.

Schedule B

Schedule B is used to report taxable interest income and dividend income from certain transactions and to indicate if you have an interest in, or signature authority over, a financial account in a foreign country or are involved with a foreign trust. For most taxpayers, the schedule is triggered by the reporting of taxable interest or dividends of more than \$1,500. However, a taxpayer could have less than \$1,500 of taxable interest and dividends and be required to file the form due to interests in foreign financial accounts.

Step 1: Interest Income (Lines 1–4)

List (on Line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2025. Be sure the interest you report on Line 1 corresponds to any *Forms 1099-INT* you received from such institutions. Do not include tax-exempt interest. Taxable interest income is carried over to Line 2b of *Form 1040*. Also utilize *Schedule B* to report any amount of interest you received from a seller-financed mortgage, interest accrued from a bond, original issue discount amounts reported on *Form 1099-OID*, interest subject to the exclusion for series EE or I U.S. savings bonds or received as a nominee.

Step 2: Dividend Income (Lines 5–6)

List (on Line 5) the name of each institution that paid you dividends if you received more than \$1,500 in dividends in 2025. Be sure the dividends you report on Line 5 correspond to any *Forms 1099-DIV* you received from such institutions. Ordinary dividend income is carried over to Line 3b of *Form 1040*.

New for 2025 is the requirement to check a box on *Form 1040* Line 3c if the amounts reported on Line 3a or 3b include your child's dividend income.

Step 3: Foreign Accounts and Foreign Trusts (Lines 7–8)

Be sure to complete this part of the schedule if you had a financial interest in, or signature authority over, a financial account in a foreign country or you received a distribution from, or were a grantor of, or transferor to, a foreign trust.

★ **KEY POINT:** If you have foreign bank accounts, you may be subject to additional filings, including *FinCEN 114* or *Form 8938*. This can also occur if your church has foreign

bank accounts, and you have signature authority on the accounts. Many times, the foreign bank account reporting is overlooked by taxpayers especially when they are not naturally filing *Schedule B* to report interest and dividends. Failure to comply can create substantial penalties.

Schedule C

★ **KEY POINT:** Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on Line 1 of *Form 1040* and receive a *Form W-2* from the church. They do not report their salary as self-employment earnings on *Schedule C*.

★ **KEY POINT:** Use *Schedule C* to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches, and fees received directly from church members for performing personal services, such as weddings and funerals.

Step 1: Introduction

Complete the first several questions on *Schedule C*. On Line B, ministers should list code 541990, the code for "other professional services", or code 813000, the code for "religious, grantmaking, civic, professional, and similar organizations".

Step 2: Income (Lines 1–7)

Report on Line 1 your gross income from your self-employment activity. Include all amounts reported to you on *Form 1099-NEC*. If you received income through a third-party payment processor, such as a credit card processor, PayPal®, or Venmo®, you may receive *Form 1099-K* reporting this income to you. For 2025, these payment processors are required to issue *Form 1099-K* if \$20,000 or more was paid to a person through their platforms, and there were 200 or more transactions.

Reporting of income is not limited to just amounts reported on *Forms 1099-NEC* or *1099-K*. You must report all income earned from these activities, even if it is below the reporting threshold for a payer. Taxpayers always have the responsibility to report all their taxable income.

\$ **TAX TIP:** There are circumstances where income may be reported to you on *Form 1099-K* that is not taxable. In the event you receive *Form 1099-K* with income included in error or for personal transactions, the nontaxable amounts should be reported on the specially designated line on *Form 1040, Schedule 1*.

Step 3: Expenses (Lines 8–27)

▲ CAUTION: Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on *Schedule C* (and avoid the non-deductibility of unreimbursed and non-accountable reimbursed employee business expenses as itemized deductions on *Schedule A*). This advantage is often illusory. Most self-employed ministers, if audited by the IRS, would be reclassified as employees and their *Schedule C* deductions disallowed. This could result in substantial additional taxes, penalties, and interest. The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement.

Report any business expenses associated with your self-employment earnings on Lines 8–27. For example, if you incur transportation, travel, or other expenses while performing self-employment activities, you deduct these expenses on Lines 8–27 of *Schedule C*. Entertainment expenses are generally non-deductible. However, you may deduct 50% of the cost of business meals if you are present and the food or beverages are not considered lavish or extravagant.

Ministers may be required to reduce the expenses deducted on *Schedule C* if a portion of the income is excluded from income as a housing allowance. The rules under IRC section 265 state that expenses associated with tax-free income may not be deducted. Therefore, expenses on *Schedule C* may have to be allocated between taxable and nontaxable income. (Many refer to this rule as the “Deason Rule”.) See IRS *Publication 517*.

Remember, when claiming business expenses for the use of an auto, the expense is based on the business percentage use of the auto. This must be supported by records showing the miles driven, the business purposes, and the destinations. These records must be kept contemporaneously during the tax year and not recreated when filing the return.

Step 4: Expenses for Business Use of Your Home (Line 30)

If a minister utilizes a portion of the home exclusively for business, a deduction may be available for expenses associated with this business use. The amount of the expense is calculated on *Form 8829* or through a simplified method indicated on this line. However, any expenses paid with the tax-free portion of the housing allowance cannot be utilized to calculate this deduction.

Report net self-employment income from *Schedule C* on *Schedule 1*, Line 3 (*Form 1040*) and carry over this and other items of additional income reported on *Schedule 1* to Line 8 of *Form 1040*.

Schedule SE

✦ **KEY POINT:** Use *Schedule SE* to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (*Form 4361*). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay self-employment taxes, and not Social Security (FICA) and Medicare taxes, with respect to compensation from such services.

✦ **KEY POINT:** Ministers who have received IRS approval of an application for exemption from self-employment taxes (*Form 4361*) do not pay self-employment taxes on compensation received for their ministerial services. These ministers should enter “Exempt – *Form 4361*” on *Form 1040*, *Schedule 2*, Line 4.

Step 1: Part I (Line 2)

Ministers complete Part I “Self-Employment Tax” of the schedule. Ministers report their net self-employment earnings on Line 2 of Part I. This amount is computed as follows:

Add the following to your church salary reported on *Form W-2* in Box 1:

- Other items of church income (including taxable fringe benefits omitted from your *Form W-2*)
- Fees you receive for weddings, baptisms, funerals, etc.
- Self-employment earnings from outside businesses
- Annual rental value of a parsonage, including utilities paid by the church (unless you are retired)
- A housing allowance (unless you are retired)
- Business expense reimbursements paid under a non-accountable plan
- The value of meals served on the church’s premises for the convenience of the employer
- Any amount a church pays toward your income tax or self-employment tax

And then deduct the following:

- Salary reduction contributions (elective deferrals) to a TSA plan (403(b) retirement plan) if included in your gross income above

- Pension payments or retirement allowances you receive for your past ministerial services if included in your gross income above
- Unreimbursed employee business expenses
- Business expenses that were not deducted on *Schedule C* due to the allocation of a portion of the business expenses to the tax-free housing allowance pursuant to the requirements of IRC section 265(a)(1), better known as the “Deason Rule”

joint return or surviving spouse, and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation.

Ministers who are a part of a two-earner family may be subject to this additional tax and should plan accordingly. Each working spouse may have wages and self-employment income of less than \$250,000, but when added together, the total exceeds the threshold. This additional tax should be considered in preparing estimated tax payments or withholding instructions.

Step 2: Part I (Line 4)

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65%, which is half the Social Security and Medicare tax paid by employers and employees. To do this, multiply net earnings from self-employment times 0.9235 on Line 4. Self-employment taxes are paid on the reduced amount.

Step 3: Part I (Line 12)

The self-employment tax for 2025 is totaled on this line. The self-employment tax rate for 2025 is 15.3%, which consists of the following two components:

1. An old-age, survivor and disability (Social Security) tax of 12.4% calculated on Line 10, and
2. A Medicare hospital insurance (HI) tax of 2.9% calculated on Line 11.

For 2025, the 2.9% Medicare tax applies to all net earnings from self-employment regardless of amount. For 2025, the 12.4% Social Security tax applies to only the first \$176,100 of net self-employment earnings. (For 2026, the maximum earnings subject to Social Security tax is \$184,500.)

50% of Line 12 is reported on Line 13 and then on *Schedule 1 (Form 1040)*, Line 15 as a deduction against federal taxable income.

- **NOTE:** Employees, other than ministers, of churches electing out of the Social Security/Medicare system must also report their earnings on *Schedule SE* using Line 5a to calculate the required self-employment tax.

Form 8959, Additional Medicare Tax

An additional Medicare tax is calculated on the wages or self-employment income of higher-income taxpayers. A Medicare (HI) tax of an additional 0.9% on wages received in excess of certain amounts must be calculated. This additional tax applies to ministers subject to self-employment tax. Unlike other Social Security and Medicare taxes, this additional tax is on the combined wages of a taxpayer and the taxpayer’s spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a

Part 4: Comprehensive Examples and Sample Forms

Example One: Active Minister

Rev. John Michaels is the minister of First Baptist Church. He is married and has one child. The child is considered a qualifying child for the Child Tax Credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from self-employment tax. The church paid Rev. Michaels a salary of \$45,000. In addition, as a self-employed person, he earned \$4,000 during the year from weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$12,000. He taught a course at the local community college, for which he was paid \$10,500. Rev. Michaels owns a home next to the church. He makes a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450, and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his housing allowance. The home's fair rental value is \$1,380 per month (including furnishings and utilities). Additionally, Rev. Michaels made cash charitable contributions of \$6,000 to section 501(c)(3) public charities in 2025.

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

Form W-2 from Church

The church completed *Form W-2* for Rev. Michaels as follows:

Box 1. The church entered Rev. Michaels' \$45,000 salary.

Box 2. The church left this box blank because Rev. Michaels did not request federal income tax withholding.

Boxes 3-6. Rev. Michaels is considered a self-employed person for purposes of Social Security and Medicare tax withholding, so the church left these boxes blank.

Box 14. The church entered Rev. Michaels' total housing allowance for the year and identified it.

❶ **TurboTax® Tips:** Listed below are tips for ministers who use TurboTax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your *Form W-2* from your church. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

1. "Let's check for uncommon situations."

Check the box that says "**Religious employment.**"

2. "Let's dig in to your religious employment."

Please note that ministers fall under the category of clergy employment.

3. "OK, tell us about your clergy housing." TurboTax then asks for the parsonage or housing allowance, as well as the amount of qualifying expenses.

The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (including furnishings and utilities), or the amount of your pay that was designated as ministerial housing allowance by your church.

4. "Now tell us about your clergy self-employment taxes."

Please note that self-employment tax should be paid on wages and housing allowance. See *Schedule SE* TurboTax Tip for additional information.

Form W-2 from College

The community college gave Rev. Michaels a *Form W-2* that showed the following.

Box 1. The college entered Rev. Michaels' \$10,500 salary.

Box 2. The college withheld \$840 in federal income tax on Rev. Michaels' behalf.

Boxes 3 and 5. As an employee of the college, Rev. Michaels is subject to Social Security and Medicare withholding on his full salary from the college.

Box 4. The college withheld \$651.00 in Social Security taxes.

Box 6. The college withheld \$152.25 in Medicare taxes.

Schedule C (Form 1040)

Some of Rev. Michaels' entries on *Schedule C* are explained here.

Line 1. Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria.

Lines 2-7. Rev. Michaels fills out these lines to report his gross income reported on Line 7. Rev. Michaels did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on Line 7 is \$4,000.

Lines 8-27b. Rev. Michaels reports his expenses related to the Line 1 amount. The total consisted of \$87 for marriage and family booklets and \$251 for 359 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the 2025 standard mileage rate of 70 cents by the 359 miles driven during the year. He calculated total mileage expenses of \$251. These expenses total \$338 (\$251 + \$87).

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches *Attachment 1* (shown later) to his return, showing that 25% (or \$63) of his car expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$63 from the \$251 and enters the \$188 difference on Line 9. Rev. Michaels also reports information regarding his vehicle in Part IV.

Line 27b. Rev. Michaels reports \$87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches a statement, *Attachment 1* (shown later), to his return showing that 25% (or \$22) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$22 from the \$87 and enters the \$65 difference on Line 27b. He also reports a description of the expense in Part V.

Line 28. Rev. Michaels enters his total expenses, less the 25% allocable to his tax-free housing allowance (\$188 + \$65) on Line 28.

Lines 29-31. He enters his tentative profit of \$3,747 reported on Line 29, less any expenses for the business use of his home on Line 31. Rev. Michaels did not have any expenses for business use of his home; therefore, his net profit is \$3,747. Net profit on *Schedule C* is also reported on *Schedule 1 (Form 1040)*, Line 3.

Lines 43-47b. Rev. Michaels fills out these lines to report information about his car.

Line 48. Rev. Michaels reports the total other expenses included on Line 27b.

☛ **TurboTax Tips:** TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the other expenses and input the non-deductible figure as a negative into the software.

Schedule SE (Form 1040)

After Rev. Michaels prepares *Schedule C*, he fills out *Schedule SE (Form 1040)*. Rev. Michaels is a minister, so his

salary from the church is not considered church employee income. Additionally, Rev. Michaels did not apply for an exemption from self-employment tax by filing *Form 4361* and, therefore, leaves the first box on *Schedule SE* unchecked. He fills out the following lines in Part I.

Line 2. Rev. Michaels attaches a statement (see *Attachment 2*, shown later) that explains how he figures the amount (\$63,826) he enters here. The calculation in *Attachment 2* includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly not deductible on *Schedule A* as itemized deductions for federal income tax purposes, these expenses are still deductible by ministers for self-employment tax purposes. Rev. Michaels' records show that he drove 2,024 miles during the year. He multiplies the miles driven by the mileage rate of 70 cents per mile. The result is \$1,417. Additionally, Rev. Michaels paid for \$219 of professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were \$1,636. After including the \$85 of *Schedule C* expenses allocable to tax-free income, the total deductions against self-employment income are \$1,721.

Lines 4a-6. He multiplies \$63,826 by 0.9235 to get his net earnings from self-employment (\$58,943). This amount is then carried through to Line 6 since Rev. Michaels does not have any other adjustments.

Lines 8a-8d. Rev. Michaels enters the amount from Box 3 on his *Form W-2* issued by the college on Line 8a and Line 8d since he had no amounts to be reported on Line 8b or 8c.

Line 10. The amount on Line 6 is less than \$176,100, so Rev. Michaels multiplies the amount on Line 6 (\$58,943) by 0.124 to get the Social Security portion of the self-employment tax of \$7,309.

Line 11. He multiplies the amount on Line 6 by 0.029 to calculate the Medicare portion of the self-employment tax of \$1,709.

Line 12. He adds the Social Security tax from Line 10 and the Medicare tax on Line 11 to determine his total self-employment tax of \$9,018. Rev. Michaels enters that amount here and on *Schedule 2 (Form 1040)*, Lines 4 and 21.

Line 13. Rev. Michaels multiplies the amount on Line 12 by 0.50 to get his deduction for the employer-equivalent portion of self-employment tax of \$4,509. He enters that amount here and on *Schedule 1 (Form 1040)*, Lines 15 and 26.

☛ **TurboTax Tips:** The software asks about self-employment tax on clergy wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the self-employment tax). Please note that the software does not

appear to automatically reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in *Attachment 2*) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax”. Choose “Make Adjustments” and enter in the “Ministerial Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$1,721 in this example – see *Attachment 2*). If the “Ministerial Business Expenses” adjustment does not automatically populate in the software, the taxpayer can use the *Schedule SE Adjustment Worksheet* by navigating to the “Forms” mode within the TurboTax desktop version to input the clergy business deductions and related explanation.

Form 1040, Lines 1a-18, and Schedule 1 (Form 1040)

Before Rev. Michaels can prepare *Form 8995* to compute the Qualified Business Income (QBI) Deduction for 2025 and *Schedule 8812* to compute the Child Tax Credit for 2025, Rev. Michaels must complete certain parts of the *Form 1040*.

He fills out *Form 1040*, along with *Schedules 1-3*, to the extent required. He files a joint return with his wife. First, he fills out *Form 1040*, Page 1 and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the forms as follows:

Form 1040, Line 1a. Rev. Michaels reports \$55,500. This amount is the total of the amounts reported in Box 1 of his *Forms W-2* (\$45,000 from the church and \$10,500 from the college).

Form 1040, Line 1h. The \$240 excess housing allowance (the excess of the amount designated and paid to Rev. Michaels as a housing allowance over the lesser of his actual expenses or the fair rental value of his home, including furnishings and utilities) should be reported at Line 1h, Other earned income.

Form 1040, Line 1z. Rev. Michaels adds the amounts reported on Line 1a and Line 1h and enters \$55,740 on Line 1z.

Schedule 1 (Form 1040), Line 3. He reports his net profit of \$3,747 from *Schedule C*, Line 31. Since no other amounts are reported on *Schedule 1 (Form 1040)*, Lines 1-8, he also reports this amount on Line 10 and carries the figure to *Form 1040*, Line 8.

Form 1040, Line 9. Rev. Michaels adds *Form 1040*, Line 1z, and the amount reported on *Form 1040*, Line 8, and enters the total (\$59,487) on Line 9.

Form 1040, Line 10. Because Rev. Michaels has reported deductible self-employment tax on *Schedule 1, (Form 1040)* Line 15, Rev. Michaels completes the remainder of Part II of *Schedule 1*. Since there are no other amounts listed on Lines 11-25, Rev. Michaels reports \$4,509 on Line 26 and enters this amount on *Form 1040*, Line 10.

Form 1040, Line 11a and Form 1040, Page 2, Line 11b. Rev. Michaels subtracts the amount reported on *Form 1040*, Line 10 from the amount reported on *Form 1040*, Line 9 and enters the total (\$54,978) on *Form 1040*, Lines 11a and 11b.

Form 1040, Page 2, Line 12e. He enters the standard deduction for taxpayers MFJ (\$31,500) since this is greater than Rev. Michaels’ potential 2025 itemized deductions (including charitable contributions made during 2025).

Form 1040, Page 2, Line 13a. Rev. Michaels adds the QBI deduction on *Form 8995*, Line 15 (*Form 8995* is prepared below), and enters the total (\$696) on Line 13.

Form 1040, Page 2, Line 14. Rev. Michaels adds the amounts on *Form 1040*, Line 12 and Line 13, and enters the total (\$32,196) on Line 14.

Form 1040, Page 2, Line 15. Subtract Line 14 from Line 11b. This amount is taxable income.

Form 1040, Page 2, Lines 16 and 18. Rev. Michaels uses the tax tables in the 2025 *Form 1040* instructions to determine his applicable tax and enters the amount (\$2,278) in the space provided on Lines 16 and 18.

Rev. Michaels now completes *Form 8995* and *Schedule 8812* before completing the remainder of the *Form 1040*.

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on Schedule C for ministerial services and who have 2025 taxable income of less than \$197,300 (\$394,600 if MFJ) before the application of a QBI deduction may be eligible for the qualified business income deduction.

After Rev. Michaels prepares *Schedule SE* and portions of *Form 1040*, he fills out *Form 8995*.

Line 1i. In Columns (a) and (b), Rev. Michaels enters the information regarding his ministerial income. In Column (c), Rev. Michaels reports the net profit or (loss) from *Schedule C*, Line 31 (\$3,747) less the portion of the deduction for self-employment taxes allocable to this net profit ($\$3,747 \times 0.9235 \times 0.153 \times 0.5 = \265), which results in \$3,482 on Line 1i, Column (c). Since there are no other amounts listed on Lines 1ii-1v, he also reports the amount on Line 2.

Line 4. Rev. Michaels adds the total QBI or loss reported on Line 2 (\$3,482) to any qualified business net losses carried forward from the prior year. Since there are no qualified business net losses carried forward from the prior year, he enters the amount on Line 4.

Line 5. Rev. Michaels multiplies Line 4 by 0.2 and enters the resulting amount (\$696) on Line 5. Since there are no other amounts reported on Lines 6–9, he also reports this amount on Line 10.

Line 11. Rev. Michaels adds the total taxable income before the QBI deduction (\$23,478) on Line 11. This amount is equal to *Form 1040*, Line 11a (\$54,978) less *Form 1040*, Line 12e (\$31,500). Since there is no amount reported on Line 12, he also reports this amount on Line 13.

Line 15. Rev. Michaels multiplies Line 13 by 0.2 (\$4,696), which he reports on Line 14. He then reports the lesser of Line 10 or Line 14 on Line 15 (\$696). Rev. Michaels also enters this amount on *Form 1040*, Line 13a.

Lines 16 and 17. Rev. Michaels enters \$0 on Line 16 since Line 2 plus Line 3 is greater than zero, and enters \$0 on Line 17 since Lines 6 and 7 were \$0.

Credits for Qualifying Children and Other Dependents (*Schedule 8812*)

Rev. Michaels prepares *Schedule 8812* to calculate the amount of the Child Tax Credit for 2025.

Lines 1–3. Rev. Michaels enters the amount from *Form 1040*, Line 11a on Lines 1 and 3, since he does not have any amounts to report on Lines 2a–2d.

Line 4. Rev. Michaels enters “1” on Line 4 since the Michaels household had one qualifying child under the age of 17 at the end of 2025. Line 4 is multiplied by \$2,200, and \$2,200 is entered on Lines 5 and 8 (since the Michaels household did not have any other dependents to enter on Line 6).

Line 9. Rev. Michaels enters \$400,000 since his filing status is MFJ.

Lines 10 and 11. Rev. Michaels enters \$0 because Line 3 (\$54,978) less Line 9 (\$400,000) is less than \$0.

Line 12. Rev. Michaels enters \$2,200 (Line 8 less Line 11).

Line 13. Rev. Michaels refers to the *Credit Limit Worksheet A* in the *Schedule 8812* instructions and enters \$2,278 on Line 13.

Line 14. Rev. Michaels enters \$2,200, the lesser of Line 12 or Line 13. Rev. Michaels also enters \$2,200 on *Form 1040*, Line 19.

Line 16a. Rev. Michaels enters \$0 on Line 16a because Line 12 less Line 14 is \$0. As directed by Line 16a, Rev. Michaels does not complete the remainder of the form.

Form 1040, Lines 19–28, and *Schedule 2 (Form 1040)*

After Rev. Michaels prepares the above schedules, he completes the remainder of *Form 1040*.

***Form 1040*, Page 2, Line 19.** The Michaels household can take the Child Tax Credit for their daughter, Jennifer. Jennifer is under the age of 17 at the end of 2025. Rev. Michaels figured the credit by completing *Schedule 8812*.

***Form 1040*, Page 2, Line 23 and *Schedule 2 (Form 1040)*.**

Rev. Michaels completes *Schedule 2 (Form 1040)*. Since the only amount reported on *Schedule 2 (Form 1040)* is his self-employment tax from *Schedule SE*, he reports the amount (\$9,018) on *Schedule 2 (Form 1040)* Lines 4 and 21, and on *Form 1040*, Page 2, Line 23.

***Form 1040*, Page 2, Line 24.** He adds the amount reported on Line 22 and the self-employment taxes reported on Line 23. This represents his total tax obligation.

***Form 1040*, Page 2, Lines 25a and 25d.** He enters the federal income tax shown in Box 2 of his *Form W-2* from the college. (No amount was reported in Box 2 of his *Form W-2* from the church.)

***Form 1040*, Page 2, Line 26.** Rev. Michaels enters the \$12,000 estimated tax payments he made for the year on Line 26.

***Form 1040*, Page 2, Lines 27–32.** Rev. Michaels completes the Earned Income Tax Credit (EITC) worksheet in the *Form 1040* instructions and determines that he does not qualify for the EITC. Accordingly, Rev. Michaels enters 0 on Lines 27a and 32, checks the box on Line 27b as a clergy member filing *Schedule SE*, and checks the box on Line 27c since he cannot take the EITC. He does not enter any amounts on Lines 28–31.

***Form 1040*, Page 2, Line 33.** Rev. Michaels adds the amount reported on Lines 25d and 26 to show the total tax payments made on Line 33 (\$12,840).

***Form 1040*, Page 2, Lines 34 and 36.** Rev. Michaels totals his overpayment by subtracting Line 24 from Line 33 (\$3,744). Rev. Michaels enters \$3,744 on Line 36 because he has chosen to apply the refund to his 2026 estimated tax payments.


a Employee's social security number <div style="border: 1px solid black; padding: 2px; text-align: center;">011-00-1111</div>		Safe, accurate, FAST! Use OMB No. 1545-0029		Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN) <div style="border: 1px solid black; padding: 2px; text-align: center;">00-0246810</div>		1 Wages, tips, other compensation <div style="border: 1px solid black; padding: 2px; text-align: right;">45000.00</div>		2 Federal income tax withheld	
c Employer's name, address, and ZIP code First Baptist Church 1042 Main Street Hometown, Texas 77099		3 Social security wages 5 Medicare wages and tips 7 Social security tips		4 Social security tax withheld 6 Medicare tax withheld 8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Suff. John E. Michaels 1040 Main Street Hometown, Texas 77099		11 Nonqualified plans 13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12a See instructions for box 12 12b 12c 12d	
f Employee's address and ZIP code		14 Other Housing Allowance 16800.00			
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

2025

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

a Employee's social security number 011-00-1111		OMB No. 1545-0029		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN) 00-1357913				1 Wages, tips, other compensation 10,500.00		2 Federal income tax withheld 840.00			
c Employer's name, address, and ZIP code Hometown College 40 Honor Road Hometown, Texas 77099				3 Social security wages 10,500.00		4 Social security tax withheld 651.00			
				5 Medicare wages and tips 10,500.00		6 Medicare tax withheld 152.25			
				7 Social security tips		8 Allocated tips			
d Control number				9		10 Dependent care benefits			
e Employee's first name and initial Last name Suff. John E. Michaels 1040 Main Street Hometown, Texas 77099				11 Nonqualified plans		12a See instructions for box 12			
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
				14 Other		12c			
						12d			
f Employee's address and ZIP code									
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

2025

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY ☐ Other

Your first name and middle initial Last name Your social security number
John E Michaels (0 1 1 0 0 1 1 1 1

If joint return, spouse's first name and middle initial Last name Spouse's social security number
Susan R Michaels (0 1 1 0 0 2 2 2 2

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☒

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code
Hometown TX 77099

Foreign country name Foreign province/state/county Foreign postal code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status ☐ Single ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS) Check only one box. ☒ Married filing jointly (even if only one had income) If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: ☐ Married filing separately (MFS). Enter spouse's SSN above and full name here: ☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☒ No

Dependents (see instructions) **Dependent 1** **Dependent 2** **Dependent 3** **Dependent 4** If more than four dependents, see instructions and check here ☐ (1) First name Jennifer (2) Last name Michaels (3) SSN 0 1 1 0 0 3 3 3 3 (4) Relationship Daughter (5) Check if lived with you more than half of 2025 (a) ☒ Yes (b) ☒ And in the U.S. (6) Check if ☐ Full-time student ☐ Permanently and totally disabled ☐ Full-time student ☐ Permanently and totally disabled ☐ Full-time student ☐ Permanently and totally disabled ☐ Full-time student ☐ Permanently and totally disabled (7) Credits ☒ Child tax credit ☐ Credit for other dependents ☐ Child tax credit ☐ Credit for other dependents ☐ Child tax credit ☐ Credit for other dependents ☐ Child tax credit ☐ Credit for other dependents ☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income **Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.** **Attach Sch. B if required.** 1a Total amount from Form(s) W-2, box 1 (see instructions) 1a 55,500 b Household employee wages not reported on Form(s) W-2 1b c Tip income not reported on line 1a (see instructions) 1c d Medicaid waiver payments not reported on Form(s) W-2 (see instructions) 1d e Taxable dependent care benefits from Form 2441, line 26 1e f Employer-provided adoption benefits from Form 8839, line 31 1f g Wages from Form 8919, line 6 1g h Other earned income (see instructions). Enter type and amount: Excess allowance 240 1h 240 i Nontaxable combat pay election (see instructions) 1i z Add lines 1a through 1h 1z 55,740 2a Tax-exempt interest 2a b Taxable interest 2b 3a Qualified dividends 3a b Ordinary dividends 3b c Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b 4a IRA distributions 4a b Taxable amount 4b c Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐ 5a Pensions and annuities 5a b Taxable amount 5b c Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐ 6a Social security benefits 6a b Taxable amount 6b c If you elect to use the lump-sum election method, check here (see instructions) d If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here 7a Capital gain or (loss). Attach Schedule D if required 7a b Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss) 8 Additional income from Schedule 1, line 10 8 3,747 9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income 9 59,487 10 Adjustments to income from Schedule 1, line 26 10 4,509 11a Subtract line 10 from line 9. This is your adjusted gross income 11a 54,978

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	54,978
12a	Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent		
b	<input type="checkbox"/> Spouse itemizes on a separate return c <input type="checkbox"/> You were a dual-status alien		
d	You: <input type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind		
	Spouse: <input type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind		
e	Standard deduction or itemized deductions (from Schedule A)	12e	31,500
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	696
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	32,196
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income	15	22,782
16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	2,278
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	2,278
19	Child tax credit or credit for other dependents from Schedule 8812	19	2,200
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	2,200
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	78
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	9,018
24	Add lines 22 and 23. This is your total tax	24	9,096

Standard deduction for—

- Single or Married filing separately, \$15,750
- Married filing jointly or Qualifying surviving spouse, \$31,500
- Head of household, \$23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

Payments and Refundable Credits

25	Federal income tax withheld from:		
a	Form(s) W-2	25a	840
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	840
26	2025 estimated tax payments and amount applied from 2024 return	26	12,000
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):		
27a	Earned income credit (EIC)	27a	0
b	Clergy filing Schedule SE (see instructions)		<input checked="" type="checkbox"/>
c	If you do not want to claim the EIC, check here		<input checked="" type="checkbox"/>
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here <input type="checkbox"/>	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Refundable adoption credit from Form 8839, line 13	30	
31	Amount from Schedule 3, line 15	31	
32	Add lines 27a, 28, 29, 30, and 31. These are your total other payments and refundable credits	32	0
33	Add lines 25d, 26, and 32. These are your total payments	33	12,840

If you have a qualifying child, you may need to attach Sch. EIC.

Refund

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	3,744
35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
b	Routing number	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
d	Account number		
36	Amount of line 34 you want applied to your 2026 estimated tax	36	3,744

Direct deposit? See instructions.

Amount You Owe

37	Subtract line 33 from line 24. This is the amount you owe . For details on how to pay, go to www.irs.gov/Payments or see instructions	37	
38	Estimated tax penalty (see instructions)	38	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. <input type="checkbox"/> Yes. Complete below. <input checked="" type="checkbox"/> No		
Designee's name	Phone no.	Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
John Michaels	3/15/26	Minister	
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Susan Michaels	3/15/26	Homemaker	
Phone no.	Email address		

Joint return? See instructions. Keep a copy for your records.

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> Self-employed
Firm's name	Phone no.			
Firm's address	Firm's EIN			

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

John E & Susan R Michaels

Your social security number

011-00-1111

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions): _____		
3	Business income or (loss). Attach Schedule C	3	3,747
4	Other gains or (losses). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here <input type="checkbox"/> and enter amount repaid: _____	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	
k	Stock options	8k	
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n	Section 951(a) inclusion (see instructions)	8n	
o	Section 951A(a) inclusion (see instructions)	8o	
p	Section 461(l) excess business loss adjustment	8p	
q	Taxable distributions from an ABLE account (see instructions)	8q	
r	Scholarship and fellowship grants not reported on Form W-2	8r	
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	()
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u	Wages earned while incarcerated	8u	
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v	
z	Other income. List type and amount: _____	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	3,747

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2025 Created 3/17/25

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here <input type="checkbox"/>	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	4,509
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here <input type="checkbox"/>	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount:	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	4,509

**SCHEDULE 2
(Form 1040)**Department of the Treasury
Internal Revenue Service**Additional Taxes**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025Attachment
Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

John E & Susan R Michaels

Your social security number

011-00-1111

Part I Tax**1** Additions to tax:**a** Excess advance premium tax credit repayment. Attach Form 8962**1a****b** Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)**1b****c** Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)**1c****d** Recapture of net EPE from Form 4255, line 2a, column (I)**1d****e** Excessive payments (EPs) on gross EPE from Form 4255. Check applicable box and enter amount. See instructions.**(i)** ☐ Line 1a**(ii)** ☐ Line 1c**(iii)** ☐ Line 1d**(iv)** ☐ Line 2a**1e****f** 20% EP from Form 4255. Check applicable box and enter amount. See instructions.**(i)** ☐ Line 1a**(ii)** ☐ Line 1c**(iii)** ☐ Line 1d**(iv)** ☐ Line 2a**1f****y** Other additions to tax (see instructions): _____**1y****z** Add lines 1a through 1y**1z****2** Alternative minimum tax. Attach Form 6251**2****3** Add lines 1z and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17**3****Part II Other Taxes****4** Self-employment tax. Attach Schedule SE. Check if any exemption from (see instructions):**1** ☐ 4361**2** ☐ 4029**3** ☐ _____**4**

9,018

5 Social security and Medicare tax on unreported tip income. Attach Form 4137**5****6** Uncollected social security and Medicare tax on wages. Attach Form 8919**6****7** Total additional social security and Medicare tax. Add lines 5 and 6**7****8** Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required.If not required, check here ☐**8****9** Household employment taxes. Attach Schedule H**9****10** Reserved for future use**10****11** Additional Medicare Tax. Attach Form 8959**11****12** Net investment income tax. Attach Form 8960**12****13** Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12**13****14** Interest on tax due on installment income from the sale of certain residential lots and timeshares**14****15** Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000**15****16** Recapture of low-income housing credit. Attach Form 8611**16**

(continued on page 2)

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040) 2025 Created 5/8/25

Part II Other Taxes *(continued)*

17	Other additional taxes:			
a	Recapture of other credits. List type, form number, and amount:	17a		
b	Recapture of federal mortgage subsidy. If you sold your home, see instructions	17b		
c	Additional tax on HSA distributions. Attach Form 8889	17c		
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d		
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e		
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f		
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g		
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h		
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i		
j	Section 72(m)(5) excess benefits tax	17j		
k	Golden parachute payments	17k		
l	Tax on accumulation distribution of trusts	17l		
m	Excise tax on insider stock compensation from an expatriated corporation	17m		
n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n		
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o		
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p		
q	Any interest from Form 8621, line 24	17q		
z	Any other taxes. List type and amount:	17z		
18	Total additional taxes. Add lines 17a through 17z		18	
19	Recapture of net EPE from Form 4255, line 1d, column (I)		19	
20	Section 965 net tax liability installment from Form 965-A	20		
21	Add lines 4, 7 through 16, 18, and 19. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23; or Form 1040-NR, line 23b		21	9,018

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to www.irs.gov/ScheduleC for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. **09**

Name of proprietor John E Michaels		Social security number (SSN) 011-00-1111
A Principal business or profession, including product or service (see instructions) Minister		B Enter code from instructions 8 1 3 0 0 0
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)
E Business address (including suite or room no.) 1040 Main Street City, town or post office, state, and ZIP code Hometown, TX 77099		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		
G Did you "materially participate" in the operation of this business during 2025? If "No," see instructions for limit on losses <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2025, check here <input type="checkbox"/>		
I Did you make any payments in 2025 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No		

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	4,000
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	4,000
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	4,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	4,000

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8		18	Office expense (see instructions) .
9 Car and truck expenses (see instructions)	9	188*	19	Pension and profit-sharing plans .
10 Commissions and fees	10		20	Rent or lease (see instructions):
11 Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment
12 Depletion	12		b	Other business property
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance
14 Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III) .
15 Insurance (other than health)	15		23	Taxes and licenses
16 Interest (see instructions):			24	Travel and meals:
a Mortgage (paid to banks, etc.)	16a		a	Travel
b Other	16b		b	Deductible meals (see instructions)
17 Legal and professional services	17		25	Utilities
			26	Wages (less employment credits)
			27a	Energy efficient commercial bldgs deduction (attach Form 7205) . .
			b	Other expenses (from line 48) . .
28 Total expenses before expenses for business use of home. Add lines 8 through 27b	28		27b	
29 Tentative profit or (loss). Subtract line 28 from line 7	29			65*
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30			253
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31			3,747
32 If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.				

- 32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2025 Created 4/3/25

*See statement attached.

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a <input type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)	
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes <input type="checkbox"/> No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . .	35
36	Purchases less cost of items withdrawn for personal use	36
37	Cost of labor. Do not include any amounts paid to yourself	37
38	Materials and supplies	38
39	Other costs	39
40	Add lines 35 through 39	40
41	Inventory at end of year	41
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43	When did you place your vehicle in service for business purposes? (month/day/year) <u>07 / 15 / 2013</u>
44	Of the total number of miles you drove your vehicle during 2025, enter the number of miles you used your vehicle for:
a	Business <u>359</u> b Commuting (see instructions) <u>0</u> c Other <u>7,506</u>
45	Was your vehicle available for personal use during off-duty hours? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
46	Do you (or your spouse) have another vehicle available for personal use?. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
47a	Do you have evidence to support your deduction? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," is the evidence written? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Part V Other Expenses. List below business expenses not included on lines 8-27a, or line 30.

Marriage and family booklets	65
48 Total other expenses. Enter here and on line 27b	48 65

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

Attach to Form 1040, 1040-SR, 1040-SS, or 1040-NR.
Go to www.irs.gov/ScheduleSE for instructions and the latest information.

OMB No. 1545-0074

2025
Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040, 1040-SR, 1040-SS, or 1040-NR)

John E Michaels

Social security number of person
with self-employment income

011-00-1111

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

- A** If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I ☐

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AQ	1b	()
Skip line 2 if you use the nonfarm optional method in Part II. See instructions.			
2	Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order	2	63,826 *
3	Combine lines 1a, 1b, and 2	3	63,826
4a	If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4a	58,943
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b	
c	Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue	4c	58,943
5a	Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a	
b	Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b	0
6	Add lines 4c and 5b	6	58,943
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2025	7	\$176,100
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$176,100 or more, skip lines 8b through 10, and go to line 11	8a	10,500
b	Unreported tips subject to social security tax from Form 4137, line 10	8b	
c	Wages subject to social security tax from Form 8919, line 10	8c	
d	Add lines 8a, 8b, and 8c	8d	10,500
9	Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11	9	165,600
10	Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10	7,309
11	Multiply line 6 by 2.9% (0.029)	11	1,709
12	Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4 , or Form 1040-SS, Part I, line 3	12	9,018
13	Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15	13	4,509

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2025 Created 5/7/25

*See statement attached.

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income¹ wasn't more than \$10,860, **or (b)** your net farm profits² were less than \$7,840.

14	Maximum income for optional methods	14	\$7,240
15	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross farm income ¹ (not less than zero) or \$7,240. Also, include this amount on line 4b above	15	

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits³ were less than \$7,840 and also less than 72.189% of your gross nonfarm income,⁴ **and (b)** you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

16	Subtract line 15 from line 14	16	
17	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above	17	

¹ From Sch. F, line 9; and Sch. K-1 (Form 1065), box 14, code B.

³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

² From Sch. F, line 34; and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

SCHEDULE 8812
(Form 1040)

Department of the Treasury
Internal Revenue Service

**Credits for Qualifying Children
and Other Dependents**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Schedule8812 for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. **47**

Name(s) shown on return

John E & Susan R Michaels

Your social security number

011-00-1111

Part I Child Tax Credit and Credit for Other Dependents

1	Enter the amount from line 11a of your Form 1040, 1040-SR, or 1040-NR	1	54,978
2a	Enter income from Puerto Rico that you excluded	2a	
b	Enter the amounts from lines 45 and 50 of your Form 2555	2b	
c	Enter the amount from line 15 of your Form 4563	2c	
d	Add lines 2a through 2c	2d	0
3	Add lines 1 and 2d	3	54,978
4	Number of qualifying children under age 17 with the required social security number	4	1
5	Multiply line 4 by \$2,200	5	2,200
6	Number of other dependents, including any qualifying children who are not under age 17 or who do not have the required social security number	6	0
Caution: Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4.			
7	Multiply line 6 by \$500	7	
8	Add lines 5 and 7	8	2,200
9	Enter the amount shown below for your filing status. • Married filing jointly—\$400,000 } • All other filing statuses—\$200,000 }	9	400,000
10	Subtract line 9 from line 3. • If zero or less, enter -0-. • If more than zero and not a multiple of \$1,000, enter the next multiple of \$1,000. For example, if the result is \$425, enter \$1,000; if the result is \$1,025, enter \$2,000, etc. }	10	0
11	Multiply line 10 by 5% (0.05)	11	0
12	Is the amount on line 8 more than the amount on line 11? <input type="checkbox"/> No. Stop here. You cannot take the child tax credit, credit for other dependents, or additional child tax credit. <input checked="" type="checkbox"/> Yes. Subtract line 11 from line 8. Enter the result.	12	2,200
13	Enter the amount from Credit Limit Worksheet A	13	2,278
14	Enter the smaller of line 12 or line 13. This is your child tax credit and credit for other dependents	14	2,200

Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 19.

If the amount on line 12 is more than the amount on line 14, you may be able to take the **additional child tax credit** on Form 1040, 1040-SR, or 1040-NR, line 28. Complete your Form 1040 or Form 1040-SR through line 27a (or Form 1040-NR through line 26) (also complete Schedule 3 (Form 1040), line 11) before completing Part II-A.

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 59761M

Schedule 8812 (Form 1040) 2025 Created 7/30/25

Part II-A Additional Child Tax Credit for All Filers**Caution:** If you file Form 2555, you cannot claim the additional child tax credit.

15	Reserved for future use	15	
16a	Subtract line 14 from line 12. If zero, stop here ; you cannot take the additional child tax credit	16a	0
b	Number of qualifying children under age 17 with the required social security number: _____ x \$1,700. Enter the result. If zero, stop here ; you cannot claim the additional child tax credit	16b	
TIP: The number of children you use for this line is the same as the number of children you used for line 4.			
17	Enter the smaller of line 16a or line 16b	17	
18a	Earned income (see instructions)	18a	
b	Nontaxable combat pay (see instructions)	18b	
19	Is the amount on line 18a more than \$2,500? <input type="checkbox"/> No. Leave line 19 blank and enter -0- on line 20. <input type="checkbox"/> Yes. Subtract \$2,500 from the amount on line 18a. Enter the result	19	
20	Multiply the amount on line 19 by 15% (0.15) and enter the result Next. On line 16b, is the amount \$5,100 or more? <input type="checkbox"/> No. If you are a bona fide resident of Puerto Rico, go to line 21. Otherwise, skip Part II-B and enter the smaller of line 17 or line 20 on line 27. <input type="checkbox"/> Yes. If line 20 is equal to or more than line 17, skip Part II-B and enter the amount from line 17 on line 27. Otherwise, go to line 21.	20	

Part II-B Certain Filers Who Have Three or More Qualifying Children and Bona Fide Residents of Puerto Rico

21	Withheld social security, Medicare, and Additional Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If your employer withheld or you paid Additional Medicare Tax or tier 1 RRTA taxes, or if you are a bona fide resident of Puerto Rico, see instructions	21	
22	Enter the total of the amounts from Schedule 1 (Form 1040), line 15; Schedule 2 (Form 1040), line 5; Schedule 2 (Form 1040), line 6; and Schedule 2 (Form 1040), line 13	22	
23	Add lines 21 and 22	23	
24	1040 and 1040-SR filers: Enter the total of the amounts from Form 1040 or 1040-SR, line 27a, and Schedule 3 (Form 1040), line 11. 1040-NR filers: Enter the amount from Schedule 3 (Form 1040), line 11. }	24	
25	Subtract line 24 from line 23. If zero or less, enter -0-	25	
26	Enter the larger of line 20 or line 25 Next, enter the smaller of line 17 or line 26 on line 27.	26	

Part II-C Additional Child Tax Credit

27	This is your additional child tax credit. Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 28	27	
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Credit Limit Worksheet A

Keep for Your Records



1.	Enter the amount from line 18 of your Form 1040, 1040–SR, or 1040–NR.	1.	2,278
2.	Add the following amounts (if applicable) from:		
	Schedule 3 , line 1	+	
	Schedule 3 , line 2	+	
	Schedule 3 , line 3	+	
	Schedule 3 , line 4	+	
	Schedule 3 , line 5b	+	
	Schedule 3 , line 6d	+	
	Schedule 3 , line 6f	+	
	Schedule 3 , line 6i	+	
	Schedule 3 , line 6m	+	
	Enter the total.	2.	
3.	Subtract line 2 from line 1.	3.	2,278
	Complete Credit Limit Worksheet B only if you meet all the following.		
	1. You are claiming one or more of the following credits.		
	a. Mortgage interest credit, Form 8396.		
	b. Adoption credit, Form 8839.		
	c. Residential clean energy credit, Form 5695, Part I.		
	d. District of Columbia first-time homebuyer credit, Form 8859.		
	2. You are not filing Form 2555.		
	3. Line 4 of Schedule 8812 is more than zero.		
4.	If you are not completing Credit Limit Worksheet B, enter -0-; otherwise, enter the amount from Credit Limit Worksheet B.	4.	0
5.	Subtract line 4 from line 3. Enter here and on Schedule 8812, line 13.	5.	2,278

**Qualified Business Income Deduction
Simplified Computation**Attach to your tax return.
Go to www.irs.gov/Form8995 for instructions and the latest information.**2025**Attachment
Sequence No. **55**

Name(s) shown on return

John E & Susan R Michaels

Your taxpayer identification number

Note: You can claim the qualified business income deduction **only** if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions.

Use this form if your taxable income, before your qualified business income deduction, is at or below \$197,300 (\$394,600 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	John E Michaels	011-00-1111	3,482
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 3,482	
3	Qualified business net (loss) carryforward from the prior year	3 ()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 3,482	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5 696
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10 696
11	Taxable income before qualified business income deduction (see instructions)	11 23,478	
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 23,478	
14	Income limitation. Multiply line 13 by 20% (0.20)		14 4,696
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)		15 696
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 (0)	
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 (0)	

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 37806C

Form **8995** (2025) Created 9/12/25

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

		Taxable	Tax-Free	Total
Salary as a minister		\$ 45,000		\$ 45,000
Housing allowance:				
Amount designated and paid by church (\$1,400 x 12)	\$ 16,800			
Actual expenses				
(Mortgage \$1,125 x 12, Utilities/other \$1,450, Real estate taxes \$1,750)	16,700			
Fair rental value of home (including furnishings and utilities) (\$1,380 x 12)	16,560			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 240</u>	240		240
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			16,560	16,560
Gross income from weddings, baptisms, and honoraria		4,000		4,000
Ministerial Income		<u>\$ 49,240</u>	<u>\$ 16,560</u>	<u>\$ 65,800</u>
% of non-deductible expenses: \$16,560/\$65,800 = 25%				

Schedule C Deduction Computation

Business use of car:	
359 miles x 70¢	\$ 251
Minus: Non-deductible part of business use of car (25% x \$251)	<u>\$ (63)</u>
Total business use of car (Line 9)	<u>\$ 188</u>
Marriage and family booklets	\$ 87
Minus: Non-deductible part of marriage and family booklets (25% x \$87)	<u>\$ (22)</u>
Total marriage and family booklets (Line 27a)	<u>\$ 65</u>
Schedule C deductions (Line 28)	<u>\$ 253</u>

Attachment 2. Attachment to Schedule SE (Form 1040)

Church wages		\$ 45,000
Housing allowance		16,800
Net profit from Schedule C		<u>3,747</u>
		65,547
Less:		
Schedule C expenses allocable to tax-free income (\$63 + \$22)	\$ 85	
Ministerial employee unreimbursed business expenses		
Car expenses for church business:		
2,024 miles x 70¢	1,417	
Publications and booklets	<u>219</u>	<u>(1,721)</u>
Net Self-Employment Income		
Schedule SE, Line 2		<u>\$ 63,826</u>

Example Two: Retired Minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2025, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by GuideStone as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (including furnishings and utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received \$12,000 of Social Security benefits in 2025, and his wife received \$6,000. None of this income is taxable, however, because the Greens' household income is not enough to expose their Social Security benefits to tax. In 2025, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see *Schedule SE*) since it represents compensation from active ministry. Rev. Green made cash contributions of \$3,500 to qualifying 501(c)(3) public charities during 2025.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from GuideStone

GuideStone completed *Form 1099-R* for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from GuideStone.

Box 2b. Taxable amount not determined. GuideStone designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities).

Box 7. Rev. Green's pension income is a normal distribution.

Schedule C (Form 1040)

Some of Rev. Green's entries on *Schedule C* are explained here.

Line 1. Rev. Green reports the \$2,000 from occasional guest preaching engagements.

Lines 2-7. Rev. Green fills out these lines to report his gross income reported on Line 7. Rev. Green did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on Line 7 is \$2,000.

Line 9. Rev. Green reports his car expenses on this line. Rev. Green incurred 623 miles of business use of his car in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the 2025 standard mileage rate of 70 cents by the 623 miles driven during the year. He calculated total mileage expenses of \$436. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches a statement, *Attachment 1* (shown later), to his return showing that 76% (or \$331) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$331 from the \$436 and enters the \$105 difference on Line 9.

Line 24b. Rev. Green also incurred \$150 in business meal expenses in connection with guest preaching engagements. Only a 50% deduction is allowed for business meals, so Rev. Green calculates his otherwise deductible business meals expense to be \$75 (\$150 x 50%). However, he cannot deduct part of his expenses allocable to his tax-free housing allowance. He attaches a statement, *Attachment 1* (shown later), to his return showing that 76% (or \$57) of his business meal expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$57 from the \$75 and enters the \$18 difference on Line 24b.

Line 28. Rev. Green enters his total expenses, less the 76% allocable to his tax-free housing allowance (\$105 + \$18) on Line 28.

Lines 29-31. He enters his tentative profit of \$1,877 on Lines 29 and 31 (since Rev. Green did not have any expenses for the business use of his home). The net income from *Schedule C* is also reported on *Schedule 1 (Form 1040)*, Line 3.

Lines 43-47b. Rev. Green fills out these lines to report information about his car.

🔗 **TurboTax Tips:** Listed below are tips for ministers who use TurboTax to complete their returns. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

TurboTax does not appear to calculate the non-deductible portion of the expenses, which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to input the total amount of otherwise deductible expenses in Lines 8-27b and input the non-deductible figure as a negative adjustment on Line 27a ("Other Expenses").

When inputting meals, the taxpayer should note that TurboTax automatically calculates the 50% deduction for business meal expenses. Therefore, the taxpayer should input the total amount of business meal expenses (\$150) in the “Meals while traveling for business” section. TurboTax will calculate the deduction on Line 24b as 50% (\$75) of the total business meal expenses.

If the total “Other Expenses” are negative after making the adjustment on Line 27a for the non-deductible portion of the expenses allocated to the tax-free portion of the housing allowance, the taxpayer will instead need to calculate the deductible amount of the expenses (as shown in *Attachment 1*) and input the reduced figures into Lines 8–27b of *Schedule C*.

Schedule SE (Form 1040)

After Rev. Green prepares *Schedule C*, he fills out *Schedule SE (Form 1040)*. Ministers are not church employees under this definition. Additionally, Rev. Green did not apply for an exemption from self-employment tax by filing *Form 4361* and, therefore, leaves the first box on *Schedule SE* unchecked. He fills out the following lines in Part I.

Line 2. Rev. Green attaches a statement (*Attachment 2*, later) that calculates his net profit of \$1,489, and he enters that amount here.

Lines 4a–6. He multiplies the \$1,489 by 0.9235 to get his net earnings from self-employment (\$1,375). This amount is then carried through to Line 6.

Line 10. The amount on Line 6 is less than \$176,100, so Rev. Green multiplies the amount on Line 6 (\$1,375) by 0.124 to get his self-employment Social Security tax of \$171.

Line 11. He multiplies the amount on Line 6 by 0.029 to calculate the Medicare portion of the self-employment tax to be \$40.

Line 12. He adds the Social Security tax from Line 10 and the Medicare tax on Line 11 to determine his total self-employment tax of \$211. Rev. Green enters that amount here and on *Schedule 2 (Form 1040)*, Line 4.

Line 13. Rev. Green multiplies the amount on Line 12 by 0.5 to get his deduction for the employer-equivalent portion of self-employment tax of \$106. He enters that amount here and on *Schedule 1 (Form 1040)*, Line 15.

❏ **TurboTax Tips:** The software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in *Attachment 2*) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax”. Choose “Make Adjustments” and enter in the “Ministerial

Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$388 in this example – see *Attachment 2*). If the “Ministerial Business Expenses” adjustment does not automatically populate in the software, the taxpayer can use the *Schedule SE Adjustment Worksheet* by navigating to the “Forms” mode within the TurboTax desktop version to input the clergy business deductions and related explanation.

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on *Schedule C* for ministerial services and who have 2025 taxable income less than \$197,300 (\$394,600 if MFJ) before the application of a qualified business income deduction may be eligible for such a deduction. However, since the Greens’ taxable income before the application of a QBI deduction is \$0 (see completion of *Form 1040* section below), the Greens are not eligible for such a deduction in 2025.

Form 1040, Schedule 1 (Form 1040), Schedule 1-A (Form 1040), and Schedule 2 (Form 1040)

After Rev. Green prepares *Schedule C* and *Schedule SE*, he fills out *Form 1040*, along with *Schedules 1–3* to the extent required.

For 2025, individuals born before January 2, 1961, have the option to complete *Form 1040-SR* instead of *Form 1040*. Although Rev. Green completes *Form 1040*, the line references below would also apply if *Form 1040-SR* was used.

Rev. Green files a joint return with his wife. First, he fills out *Form 1040*, Page 1, and completes the appropriate lines for his filing status. Then, he fills out the rest of the form as follows:

Form 1040, Lines 5a and 5b. Rev. Green reports his total annuity income of \$15,000 on Line 5a. He reports the taxable amount of \$2,000 (the excess of the amount designated and paid to him as a housing allowance over the lesser of his actual expenses or the fair rental value of his home, including furnishings and utilities) as computed on *Attachment 1* (shown later) on Line 5b.

Form 1040, Lines 6a and 6b. Rev. Green reports his and his wife’s total combined Social Security benefits of \$18,000 on Line 6a. Since none of their Social Security benefits are taxable, Rev. Green does not report any amount on Line 6b.

Schedule 1 (Form 1040), Line 10. He reports his net profit of \$1,877 from *Schedule C*, Line 31 on *Schedule 1*, Line 3. Since no other amounts are reported on *Schedule 1 (Form 1040)*, Lines 1–8, he also reports this amount on *Schedule 1*, Line 10, and carries the figure to *Form 1040*, Line 8.

Form 1040, Line 9. Rev. Green adds *Form 1040*, Line 5b, and the amount reported on *Form 1040*, Line 8, and enters the total (\$3,877) on Line 9.

Form 1040, Lines 10, 11a, and 11b. Because Rev. Green has reported deductible self-employment taxes of \$106 on *Schedule 1 (Form 1040)*, Line 15, Rev. Green goes to *Schedule 1 (Form 1040)* and completes the bottom section of the form. Since there are no other amounts listed on Lines 11–25, Rev. Green reports \$106 on Line 26 and carries this amount to Line 10 of *Form 1040*. Rev. Green then subtracts Line 10 from Line 9 and enters his AGI of \$3,771 on Lines 11a and 11b.

Form 1040, Page 2, Line 12d. Rev. Green checks the appropriate boxes indicating that he and his wife were born before January 2, 1961.

Form 1040, Page 2, Line 12e. Rev. Green enters his standard deduction of \$34,700 (which takes into consideration the fact that he and his wife were born before January 2, 1961) on Line 12e.

Form 1040, Page 2, Lines 13a and 13b. Rev. Green does not report any amount of QBI deduction on Line 13a. To complete Line 13b, Rev. Green must complete *Schedule 1-A*.

Schedule 1-A, Lines 1 and 3. Since there are no adjustments necessary to arrive at MAGI, Rev. Green reports the amount of AGI from *Form 1040*, Line 11b (\$3,771) on Lines 1 and 3.

Schedule 1-A, Lines 31 and 32. Rev. Green enters \$3,771 from Line 3 on Line 31 and enters \$150,000 on Line 32 because he is MFJ.

Schedule 1-A, Lines 33–38. Rev. Green subtracts Line 32 from Line 31 and determines that the amount is less than zero (–\$146,229). Line 33 directs Rev. Green to enter \$6,000 on Line 35. Lines 36a and 36b direct Rev. Green to enter the amount from Line 35 (\$6,000) on both lines because he and his wife were both born before January 2, 1961. Rev. Green enters the sum of Lines 36a and 36b (\$12,000) on Lines 37 and 38. This figure is carried to *Form 1040*, Line 13b.

Form 1040, Page 2, Line 14. Since there is no amount listed for QBI deduction on Line 13a, Rev. Green adds Line 12e (\$34,700) and Line 13b (\$12,000) and reports \$46,700 on Line 14.

Form 1040, Page 2, Line 15. Rev. Green has no taxable income.

Form 1040, Page 2, Line 23, and Schedule 2 (Form 1040). Rev. Green completes *Schedule 2 (Form 1040)*. Since the only amount reported on *Schedule 2 (Form 1040)* is his self-employment tax from *Schedule SE*, he reports the amount (\$211) on *Schedule 2 (Form 1040)*, Line 4 with the total of all other taxes on Line 21, and on *Form 1040*, Line 23.

Form 1040, Page 2, Lines 25a–26. Rev. Green did not have any income tax withheld from his pension and did not have any other amounts to report on Lines 25a–26.

Form 1040, Page 2, Lines 27–32. Rev. Green completes the Earned Income Credit (EIC) worksheet in the *Form 1040* instructions and determines that he does not qualify for the EIC. Accordingly, Rev. Green does not enter any amount on Line 27. Instead, he writes “No” on the dotted line next to Line 27. He also does not enter any amounts on Lines 28–32.

Form 1040, Line 37. Rev. Green subtracts Line 33 (\$0) from Line 24 and enters \$211, the amount he owes to the IRS.

✔ **TurboTax Tips:** As of the date of this writing, when entering the information on *Form 1099-R*, the software does not appear to provide a method for entering the taxable portion of the distributions as computed at *Attachment 1* since certain of the distributions were excludable as a ministerial housing allowance. In prior years, the taxpayer could manually enter the taxable amount by choosing the “General Rule” and entering the amount determined at *Attachment 1* in the field. This adjustment may be available when the 2025 software is fully released.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. GuideStone Financial Resources 5005 LBJ Freeway Ste 2200 Dallas, Texas 75244-6152 1-888-984-8433		1 Gross distribution \$ 15000.00		OMB No. 1545-0119 2025 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.					
		2a Taxable amount \$									
		2b Taxable amount not determined <input checked="" type="checkbox"/>		Total distribution <input type="checkbox"/>							
PAYER'S TIN 23-1352010		RECIPIENT'S TIN 202-20-2002		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$	Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.				
RECIPIENT'S name William K. Green Street address (including apt. no.) 787 Adams Street City or town, state or province, country, and ZIP or foreign postal code Anytown, NY 10002		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$							
		7 Distribution code(s) 7		IRA/ SEP/ SIMPLE <input type="checkbox"/>	8 Other \$ %						
		9a Your percentage of total distribution %		9b Total employee contributions \$							
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		12 FATCA filing requirement <input type="checkbox"/>		14 State tax withheld \$		15 State/Payer's state no.		16 State distribution \$	
Account number (see instructions)		13 Date of payment		17 Local tax withheld \$		18 Name of locality		19 Local distribution \$			

Form **1099-R**

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service

Form 1040	Department of the Treasury—Internal Revenue Service	2025	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																																																																																								
For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.																																																																																																												
<input type="checkbox"/> Filed pursuant to section 301.9100-2 <input type="checkbox"/> Combat zone <input type="checkbox"/> Deceased MM / DD / YYYY Spouse MM / DD / YYYY																																																																																																												
<input type="checkbox"/> Other																																																																																																												
Your first name and middle initial William K		Last name Green		Your social security number 2 0 2 2 2 0 2 2 0 2																																																																																																								
If joint return, spouse's first name and middle initial Sarah J		Last name Green		Spouse's social security number 3 0 3 3 0 3 0 0 3																																																																																																								
Home address (number and street). If you have a P.O. box, see instructions. 787 Adams Street				Apt. no.																																																																																																								
City, town, or post office. If you have a foreign address, also complete spaces below. Anytown				State NY																																																																																																								
Foreign country name				ZIP code 10002																																																																																																								
Foreign province/state/county				Foreign postal code																																																																																																								
Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. <input checked="" type="checkbox"/>																																																																																																												
Filing Status																																																																																																												
<input type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH)																																																																																																												
<input checked="" type="checkbox"/> Married filing jointly (even if only one had income) <input type="checkbox"/> Qualifying surviving spouse (QSS)																																																																																																												
<input type="checkbox"/> Married filing separately (MFS). Enter spouse's SSN above and full name here: If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:																																																																																																												
<input type="checkbox"/> If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):																																																																																																												
Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No																																																																																																												
Dependents (see instructions)																																																																																																												
If more than four dependents, see instructions and check here <input type="checkbox"/>																																																																																																												
<table><thead><tr><th></th><th>Dependent 1</th><th>Dependent 2</th><th>Dependent 3</th><th>Dependent 4</th></tr></thead><tbody><tr><td>(1) First name</td><td></td><td></td><td></td><td></td></tr><tr><td>(2) Last name</td><td></td><td></td><td></td><td></td></tr><tr><td>(3) SSN</td><td></td><td></td><td></td><td></td></tr><tr><td>(4) Relationship</td><td></td><td></td><td></td><td></td></tr><tr><td>(5) Check if lived with you more than half of 2025</td><td>(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.</td><td>(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.</td><td>(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.</td><td>(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.</td></tr><tr><td>(6) Check if</td><td><input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled</td><td><input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled</td><td><input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled</td><td><input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled</td></tr><tr><td>(7) Credits</td><td><input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents</td><td><input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents</td><td><input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents</td><td><input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents</td></tr></tbody></table>						Dependent 1	Dependent 2	Dependent 3	Dependent 4	(1) First name					(2) Last name					(3) SSN					(4) Relationship					(5) Check if lived with you more than half of 2025	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(6) Check if	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	(7) Credits	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents																																																																
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<input type="checkbox"/> Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.																																																																																																												
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Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.																																																																																																												
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11a	Subtract line 10 from line 9. This is your adjusted gross income	11a	3,771																																																																																																									

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	3,771
12a	Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent		
b	<input type="checkbox"/> Spouse itemizes on a separate return	c	<input type="checkbox"/> You were a dual-status alien
d	You: <input checked="" type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind		
	Spouse: <input checked="" type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind		
e	Standard deduction or itemized deductions (from Schedule A)	12e	34,700
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	0
b	Additional deductions from Schedule 1-A, line 38	13b	12,000
14	Add lines 12e, 13a, and 13b	14	46,700
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income	15	0
16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	0
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	0
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	211
24	Add lines 22 and 23. This is your total tax	24	211

Standard deduction for—

- Single or Married filing separately, \$15,750
- Married filing jointly or Qualifying surviving spouse, \$31,500
- Head of household, \$23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

Payments and Refundable Credits

25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	
26	2025 estimated tax payments and amount applied from 2024 return	26	
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):		
27a	Earned income credit (EIC)	27a	
b	Clergy filing Schedule SE (see instructions)		<input type="checkbox"/>
c	If you do not want to claim the EIC, check here		<input type="checkbox"/>
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Refundable adoption credit from Form 8839, line 13	30	
31	Amount from Schedule 3, line 15	31	
32	Add lines 27a, 28, 29, 30, and 31. These are your total other payments and refundable credits	32	
33	Add lines 25d, 26, and 32. These are your total payments	33	

If you have a qualifying child, you may need to attach Sch. EIC.

Refund

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	
35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here	35a	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
36	Amount of line 34 you want applied to your 2026 estimated tax	36	

Direct deposit? See instructions.

Amount You Owe

37	Subtract line 33 from line 24. This is the amount you owe . For details on how to pay, go to www.irs.gov/Payments or see instructions	37	211
38	Estimated tax penalty (see instructions)	38	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes**. Complete below. ☒ **No**

Designee's name	Phone no.	Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature <i>William Green</i>	Date 3/15/26	Your occupation Retired Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, both must sign. <i>Sarah Green</i>	Date 3/15/26	Spouse's occupation Retired	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Joint return? See instructions. Keep a copy for your records.

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> Self-employed
Firm's name	Firm's address			Phone no.
				Firm's EIN

Go to www.irs.gov/Form1040 for instructions and the latest information.

Form **1040** (2025)

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025
Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

William K & Sarah J Green

Your social security number

202-20-2002

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions): _____		
3	Business income or (loss). Attach Schedule C	3	1,877
4	Other gains or (losses). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here <input type="checkbox"/> and enter amount repaid: _____	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	
k	Stock options	8k	
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n	Section 951(a) inclusion (see instructions)	8n	
o	Section 951A(a) inclusion (see instructions)	8o	
p	Section 461(l) excess business loss adjustment	8p	
q	Taxable distributions from an ABLE account (see instructions)	8q	
r	Scholarship and fellowship grants not reported on Form W-2	8r	
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	()
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u	Wages earned while incarcerated	8u	
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v	
z	Other income. List type and amount: _____	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	1,877

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2025 Created 3/17/25

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here <input type="checkbox"/>	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	106
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here <input type="checkbox"/>	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount:	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	106

Schedule 1 (Form 1040) 2025

**SCHEDULE 1-A
(Form 1040)**Department of the Treasury
Internal Revenue Service**Additional Deductions**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025Attachment
Sequence No. **1A**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

William K & Sarah J Green

Your social security number

202-20-2002

Part I Modified Adjusted Gross Income (MAGI) Amount

1	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b	1	3,771
2a	Enter any income from Puerto Rico that you excluded	2a	
b	Enter the amount from Form 2555, line 45	2b	
c	Enter the amount from Form 2555, line 50	2c	
d	Enter the amount from Form 4563, line 15	2d	
e	Add lines 2a, 2b, 2c, and 2d	2e	
3	Add lines 1 and 2e	3	3,771

Part II No Tax on Tips

Caution: Fill out Part II only if you received qualified tips. These tips must have been received in an occupation listed at IRS.gov/TippedOccupations. You and/or your spouse who received qualified tips must have a valid social security number to claim the deduction. If married, you must file jointly to claim this deduction. See instructions.

4	Qualified tips received as an employee. If you received tips as an employee with respect to employment with more than one employer, enter -0- on lines 4a and 4b and see the instructions to determine the amount to enter on line 4c. If you received tips as an employee in more than one occupation, see the instructions.		
a	Enter qualified tips included on Form W-2, box 7, but see the instructions if Form W-2, box 5 is more than \$176,100 or you received tips that are not subject to social security and Medicare taxes	4a	
b	Qualified tips included on Form 4137, line 1, row A, column (c). If Form 4137 is not filed, enter -0-	4b	
c	If you only received qualified tips as an employee with respect to employment with one employer, enter the larger of line 4a or line 4b. Otherwise, see the instructions to determine the amount to enter on line 4c. If you received tips as an employee in more than one occupation, see the instructions	4c	
5	Qualified tips received in the course of a trade or business. Qualified tip amount included in Form 1099-NEC, box 1; Form 1099-MISC, box 3; or Form 1099-K, box 1a. Do not enter more than the net profit from the trade or business. If you received qualified tips in the course of more than one trade or business or in more than one occupation, see instructions	5	
6	Add lines 4c and 5	6	
7	Enter the smaller of the amount on line 6 or \$25,000	7	
8	Enter the amount from line 3	8	
9	Enter \$150,000 (\$300,000 if married filing jointly)	9	
10	Subtract line 9 from line 8. If zero or less, enter the amount from line 7 on line 13	10	
11	Divide line 10 by \$1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)	11	
12	Multiply line 11 by \$100	12	
13	Qualified tips deduction. Subtract line 12 from line 7. If zero or less, enter -0-	13	

Part III No Tax on Overtime

Caution: Fill out Part III only if you received qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

14a	Qualified overtime compensation included in Form W-2, box 1. If you received qualified overtime compensation not reported on Form W-2, box 1, see instructions	14a	
b	Qualified overtime compensation included in Form 1099-NEC, box 1, or Form 1099-MISC, box 3 (see instructions)	14b	
c	Add lines 14a and 14b	14c	
15	Enter the smaller of the amount on line 14c or \$12,500 (\$25,000 if married filing jointly)	15	
16	Enter the amount from line 3	16	
17	Enter \$150,000 (\$300,000 if married filing jointly)	17	
18	Subtract line 17 from line 16. If zero or less, enter the amount from line 15 on line 21	18	
19	Divide line 18 by \$1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)	19	
20	Multiply line 19 by \$100	20	
21	Qualified overtime compensation deduction. Subtract line 20 from line 15. If zero or less, enter -0-	21	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 95872Q

Schedule 1-A (Form 1040) 2025 Created 11/4/25

Part IV No Tax on Car Loan Interest

Caution: Fill out Part IV only if you, or your spouse if married filing jointly, paid or accrued qualified passenger vehicle loan interest (QPVLI). Column (iii) is the total QPVLI paid in 2025 less the amounts reported in column (ii). See instructions.

22 Applicable passenger vehicle (see instructions). If more than two VINs, see instructions.

		Interest for this loan:	
(i) Vehicle identification number (VIN)		(ii) Deducted on Schedule C, Schedule E, or Schedule F	(iii) Schedule 1-A
a	<input type="text"/>		
b	<input type="text"/>		
23	Add lines 22a and 22b, column (iii)	23	
24	Enter the smaller of the amount on line 23 or \$10,000	24	
25	Enter the amount from line 3	25	
26	Enter \$100,000 (\$200,000 if married filing jointly)	26	
27	Subtract line 26 from line 25. If zero or less, enter the amount from line 24 on line 30	27	
28	Divide line 27 by \$1,000. If the resulting number isn't a whole number, increase the result to the next higher whole number. (For example, increase 1.5 to 2, and increase 0.05 to 1.)	28	
29	Multiply line 28 by \$200	29	
30	Qualified passenger vehicle loan interest deduction. Subtract line 29 from line 24. If zero or less, enter -0-	30	

Part V Enhanced Deduction for Seniors

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

31	Enter the amount from line 3	31	3,771
32	Enter \$75,000 (\$150,000 if married filing jointly)	32	150,000
33	Subtract line 32 from line 31. If zero or less, enter \$6,000 on line 35	33	-146,229
34	Multiply line 33 by 6% (0.06)	34	
35	Subtract line 34 from \$6,000. If zero or less, enter -0-	35	6,000
36a	If you have a valid social security number (see instructions) and were born before January 2, 1961, enter the amount from line 35	36a	6,000
b	If you are married filing jointly, your spouse has a valid social security number (see instructions), and your spouse was born before January 2, 1961, enter the amount from line 35	36b	6,000
37	Enhanced deduction for seniors. Add lines 36a and 36b	37	12,000

Part VI Total Additional Deductions

38	Add lines 13, 21, 30, and 37. Enter here and on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c	38	12,000
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Schedule 1-A (Form 1040) 2025

SCHEDULE 2
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Taxes

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

William K & Sarah J Green

Your social security number

202-20-2002

Part I Tax

1	Additions to tax:		
a	Excess advance premium tax credit repayment. Attach Form 8962	1a	
b	Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)	1b	
c	Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)	1c	
d	Recapture of net EPE from Form 4255, line 2a, column (I)	1d	
e	Excessive payments (EPs) on gross EPE from Form 4255. Check applicable box and enter amount. See instructions. (i) <input type="checkbox"/> Line 1a (ii) <input type="checkbox"/> Line 1c (iii) <input type="checkbox"/> Line 1d (iv) <input type="checkbox"/> Line 2a	1e	
f	20% EP from Form 4255. Check applicable box and enter amount. See instructions. (i) <input type="checkbox"/> Line 1a (ii) <input type="checkbox"/> Line 1c (iii) <input type="checkbox"/> Line 1d (iv) <input type="checkbox"/> Line 2a	1f	
y	Other additions to tax (see instructions): _____	1y	
z	Add lines 1a through 1y	1z	
2	Alternative minimum tax. Attach Form 6251	2	
3	Add lines 1z and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17	3	

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE. Check if any exemption from (see instructions): 1 <input type="checkbox"/> 4361 2 <input type="checkbox"/> 4029 3 <input type="checkbox"/> _____	4	211
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5	
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6	
7	Total additional social security and Medicare tax. Add lines 5 and 6	7	
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8	
9	Household employment taxes. Attach Schedule H	9	
10	Reserved for future use	10	
11	Additional Medicare Tax. Attach Form 8959	11	
12	Net investment income tax. Attach Form 8960	12	
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	

(continued on page 2)

Part II Other Taxes *(continued)*

17	Other additional taxes:		
a	Recapture of other credits. List type, form number, and amount:	17a	
b	Recapture of federal mortgage subsidy. If you sold your home, see instructions	17b	
c	Additional tax on HSA distributions. Attach Form 8889	17c	
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d	
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e	
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f	
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g	
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h	
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i	
j	Section 72(m)(5) excess benefits tax	17j	
k	Golden parachute payments	17k	
l	Tax on accumulation distribution of trusts	17l	
m	Excise tax on insider stock compensation from an expatriated corporation	17m	
n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n	
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o	
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p	
q	Any interest from Form 8621, line 24	17q	
z	Any other taxes. List type and amount:	17z	
18	Total additional taxes. Add lines 17a through 17z		18
19	Recapture of net EPE from Form 4255, line 1d, column (l)		19
20	Section 965 net tax liability installment from Form 965-A	20	
21	Add lines 4, 7 through 16, 18, and 19. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23; or Form 1040-NR, line 23b		21

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Schedule 2 (Form 1040) 2025

SCHEDULE C
(Form 1040)Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to www.irs.gov/ScheduleC for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. 09

Name of proprietor

William K Green

Social security number (SSN)

202-20-2002

A Principal business or profession, including product or service (see instructions)

Minister

B Enter code from instructions

8 | 1 | 3 | 0 | 0 | 0

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) 787 Adams Street

City, town or post office, state, and ZIP code Anytown, NY 10002

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify)G Did you "materially participate" in the operation of this business during 2025? If "No," see instructions for limit on losses ☒ Yes ☐ NoH If you started or acquired this business during 2025, check here ☐I Did you make any payments in 2025 that would require you to file Form(s) 1099? See instructions ☐ Yes ☒ NoJ If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	2,000
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	2,000
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	2,000
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	2,000

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9	105*	19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals (see instructions)	24b	18*
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27b	28	123	26	Wages (less employment credits)	26	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	1,877	27a	Energy efficient commercial bldgs deduction (attach Form 7205)	27a	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		b	Other expenses (from line 48)	27b	
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	1,877				
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.			32a	<input type="checkbox"/> All investment is at risk.		
				32b	<input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2025 Created 4/3/25

*See statement attached.

Part III	Cost of Goods Sold (see instructions)
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33 Method(s) used to value closing inventory: **a** ☐ Cost **b** ☐ Lower of cost or market **c** ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	

Part IV **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month/day/year) 07 / 15 / 2014

44 Of the total number of miles you drove your vehicle during 2025, enter the number of miles you used your vehicle for:

a	Business	623	b	Commuting (see instructions)	0	c	Other	12,811
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45 Was your vehicle available for personal use during off-duty hours? ☒ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No

47a Do you have evidence to support your deduction? ☒ **Yes** ☐ **No**

b If “Yes,” is the evidence written? ☒ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8-27a, or line 30.

48	Total other expenses. Enter here and on line 27b	48
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SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

Attach to Form 1040, 1040-SR, 1040-SS, or 1040-NR.
Go to www.irs.gov/ScheduleSE for instructions and the latest information.

OMB No. 1545-0074

2025
Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040, 1040-SR, 1040-SS, or 1040-NR)

William K Green

Social security number of person
with **self-employment** income

202-20-2002

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I ☐

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A **1a**

b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AQ **1b** ()

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order **2** 1,489*

3 Combine lines 1a, 1b, and 2 **3** 1,489

4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **4a** 1,375

Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here **4b**

c Combine lines 4a and 4b. If less than \$400, **stop**; you don't owe self-employment tax. **Exception:** If less than \$400 and you had **church employee income**, enter -0- and continue **4c** 1,375

5a Enter your **church employee income** from Form W-2. See instructions for definition of church employee income **5a**

b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- **5b** 0

6 Add lines 4c and 5b **6** 1,375

7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2025 **7** \$176,100

8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$176,100 or more, skip lines 8b through 10, and go to line 11 **8a**

b Unreported tips subject to social security tax from Form 4137, line 10 **8b**

c Wages subject to social security tax from Form 8919, line 10 **8c**

d Add lines 8a, 8b, and 8c **8d**

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 **9** 176,100

10 Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124) **10** 171

11 Multiply line 6 by 2.9% (0.029) **11** 40

12 Self-employment tax. Add lines 10 and 11. Enter here and on **Schedule 2 (Form 1040), line 4, or Form 1040-SS, Part I, line 3** **12** 211

13 Deduction for one-half of self-employment tax.
Multiply line 12 by 50% (0.50). Enter here and on **Schedule 1 (Form 1040), line 15** **13** 106

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2025 Created 5/7/25

*See statement attached.

Part II **Optional Methods To Figure Net Earnings** (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income¹ wasn't more than \$10,860, **or (b)** your net farm profits² were less than \$7,840.

14	Maximum income for optional methods	14	\$7,240
15	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross farm income ¹ (not less than zero) or \$7,240. Also, include this amount on line 4b above	15	

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits³ were less than \$7,840 and also less than 72.189% of your gross nonfarm income,⁴ **and (b)** you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

16	Subtract line 15 from line 14	16	
17	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above	17	

¹ From Sch. F, line 9; and Sch. K-1 (Form 1065), box 14, code B.

² From Sch. F, line 34; and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

% of Non-deductible Expenses				
		<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Housing allowance:				
Ministerial retirement benefits designated as housing allowance	\$ 15,000			
Actual expenses	\$ 13,000			
Fair rental value of home (including furnishings and utilities) (\$1,200 x 12)	\$ 14,400			
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 2,000</u>	\$ 2,000		\$ 2,000
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			13,000	13,000
Gross income from occasional guest preaching engagements		2,000		2,000
Ministerial Income		<u>\$ 4,000</u>	<u>\$ 13,000</u>	<u>\$ 17,000</u>
% of non-deductible expenses: \$13,000/\$17,000 = 76%				

<u>Schedule C Deduction Computation</u>	
Business use of car:	
623 x 70¢	\$ 436
Minus: Non-deductible part of business use of car (76% x \$436)	<u>\$ (331)</u>
Total business use of car (Line 9)	<u>\$ 105</u>
Meal expenses (\$150 less 50% reduction)	\$ 75
Minus: Non-deductible part of meals & entertainment (76% x \$75) Total meal expenses (Line 24b)	<u>\$ (57)</u>
	<u>\$ 18</u>
 <i>Schedule C</i> deductions, Line 28	 <u>\$ 123</u>
None of the other deductions claimed on the return are allocable to tax-free income.	

Attachment 2. Computation of Net Earnings from Self-Employment

<u>Computation for Schedule SE (Form 1040)</u>	
Net profit from <i>Schedule C</i>	\$ 1,877
Less:	
<i>Schedule C</i> expenses allocable to tax-free income (\$331 + \$57) Net Self-Employment Income	<u>(388)</u>
<i>Schedule SE</i> , Line 2	<u>\$ 1,489</u>



2026

Federal Reporting Requirements

for Churches

Prepared by

Elaine L. Sommerville, CPA
Senior Editorial Advisor, Church Law & Tax
and

Richard R. Hammar, J.D., LL.M., CPA (retired)
Senior Editor, Church Law & Tax

Edited by GuideStone®

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This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance, and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this guide provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

Master Plan Tax Solutions of Flower Mound, Texas, reviewed the material in the *2026 Federal Reporting Requirements*. For additional information, visit MasterPlanTaxes.com.

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Introduction

The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply for various reasons, including the following:

- The church treasurer is elected by the congregation and does not remain in office long enough to understand the application of the payroll tax reporting rules to churches.
- Church leaders falsely assume that churches are exempt from the payroll tax reporting requirements. The courts have rejected the argument that the application of the payroll tax reporting rules to churches violates the constitutional guaranty of religious freedom.
- There are several special payroll tax reporting rules that apply to churches, and these often are not clearly understood by church staff members. These special rules include:
 - While most ministers are employees for federal income tax reporting, they are self-employed for Social Security with respect to compensation they receive for ministerial services. This means that they pay self-employment tax (SECA) rather than the employee's share of Social Security and Medicare taxes (FICA) — even if they report their federal income taxes as a church employee. It is a common mistake for churches to treat ministers as employees for Social Security and to withhold the employee's share of Social Security and Medicare taxes from their wages.
 - Wages paid to a minister as compensation for ministerial services are exempt from mandatory federal income tax withholding, whether the minister reports federal income taxes as an employee or as self-employed. Ministers use the estimated tax procedure to pay their federal taxes unless they have entered into a voluntary withholding agreement with their employing church (explained below).
 - Some churches are exempt from the employer's share of Social Security and Medicare taxes because they filed a timely exemption application. For most churches, this exemption had to be filed before October 31, 1984. The exemption does not excuse the church from income tax withholding, filing *Form 941*, or issuing *Forms W-2* to church employees. The non-minister employees of a church who

filed this exemption application are treated as self-employed for Social Security and must pay the self-employment tax (SECA) if they are paid \$108.28 or more during the year.

▲ WARNING: Federal law specifies that any corporate officer, director, or employee who is responsible for withholding taxes and paying them over to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders, given the significant rate of non-compliance by churches with the payroll reporting procedures.

The companion resource — the *2026 Clergy Tax Return Preparation Guide for 2025 Returns* — gives ministers basic information needed to complete their 2025 federal income tax return, with special attention given to several forms and schedules and the sections of each form most relevant to ministers. GuideStone members can access this resource at MyGuideStone.org, and Elaine Sommerville's *Church Compensation, Second Edition (2025 Updates)* provides year-round insights on pay, benefits, payroll, and more.

Maximizing Tax Benefits for Your Ministers and Employees

Housing and Parsonage Allowances

An important tax benefit available to ministers who own or rent a home is the housing allowance exclusion. While the constitutionality of this benefit has been challenged over the years, the challenges have failed. Unfortunately, many churches fail to designate a portion of their minister's compensation as a housing allowance, thereby depriving the minister of an important tax benefit. A church may provide a housing allowance to any properly credentialed minister performing qualifying ministerial duties for the church. Churches are not limited to providing this benefit to only a lead pastor but may provide the benefit to any qualifying minister on staff.

A housing allowance is a portion of a minister's compensation that is designated in advance by the minister's employing church. For example, in December 2025, a church agrees to pay its pastor total compensation of \$45,000 for 2026 and designates \$15,000 of this amount as a housing allowance. (The remaining \$30,000 is salary.) This costs the church nothing. It is simply a matter of designating part of a minister's salary as a housing allowance.

The tax code specifies that the housing allowance of a minister who owns or rents a home is nontaxable in

computing federal income taxes to the extent that it is (1) declared in advance by the church, (2) used for housing expenses, and (3) does not exceed the fair rental value of the minister's home (including furnishings and utilities).

✪ **KEY POINT:** A church cannot designate a housing allowance retroactively. It can only be designated prospectively.

✪ **KEY POINT:** Although repayments of principal and interest on a home mortgage loan qualify as a housing expense to which a housing allowance can be applied, costs associated with refinancing a principal residence or a home equity loan qualify only if the proceeds are used for housing expenses.

Ministers who live in a church-owned parsonage that is provided rent-free as compensation for ministerial services do not include the annual fair rental value of the parsonage as income in computing their federal income taxes. The annual fair rental value is not deducted from the minister's income. Rather, it is not reported as additional income on *Form 1040* (as it generally would be by non-clergy workers).

Ministers who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a parsonage allowance to the extent that the allowance represents compensation for ministerial services and is used to pay parsonage-related expenses such as utilities, repairs, and furnishings.

Note that the housing allowance and fair rental value of a parsonage are nontaxable only when computing federal income taxes. Ministers must include their housing allowance and rental value of a parsonage as taxable income when computing their self-employment taxes (except for retired ministers). In addition, any housing provided to a minister that is excludable from taxable income pursuant to IRC section 119 (relating to housing provided on an employer's premises "for the convenience of the employer") also must be included in a minister's taxable income when computing self-employment income.

✪ **KEY POINT:** Be sure that the designation of an allowance for the following year is on the agenda of the church or church board for its last meeting of the current year. The designation should be an official action and be duly recorded in the meeting minutes. The IRS also recognizes designations in employment contracts and budget line items — assuming that the church duly adopted the contract or the budget, and it is reflected in a written document. If a designation is made after the start of a new calendar year, it can only operate prospectively.

Accountable Expense Reimbursements

With the permanent removal of the deduction for unreimbursed business expenses, the use of accountable expense reimbursement plans by churches provides the primary method of easing the negative tax impact of business expenses. The tax code excludes from tax the employer reimbursements of employee business expenses paid under an **accountable expense reimbursement plan**. Accountable expense reimbursement plans provide assurance that churches bear the costs of operating, rather than clergy and other employees bearing these costs to their financial detriment.

To be accountable, a church's reimbursement arrangement must comply with each of the four following rules:

1. Expenses must have a business connection and represent ordinary and necessary expenses incurred by an employee while performing services for the employer.
2. Employees are only reimbursed for expenses for which they provide adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. The income tax regulations caution that for an employer's reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

✪ **KEY POINT:** Reimbursements of business expenses under an accountable arrangement are not reported as taxable income on an employee's *Form W-2* or *Form 1040*, and there are no deductions to claim. In effect, the employee is reporting to the church rather than to the IRS. This often translates into significant tax savings for the employee.

An **accountable** expense reimbursement arrangement must be a written plan established by the church board or congregation in an appropriate resolution. The plan should define what types of expenses will be reimbursed and the required substantiation. Substantiation will include written evidence for all expenses in addition to receipts for most expenses of \$75 or more, and for all lodging expenses, no matter the amount. For most expenses, the evidence must substantiate the amount, date, place, and business nature of each expense.

To control expenses, the plan may also define the maximum amount that will be reimbursed for any expense category.

Churches occasionally reimburse ministers for **non-business** expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the minister's wages for income tax reporting purposes, and they are not deductible by the minister. Instead, the entire amount of these reimbursements must be reported as taxable income on the minister's *Form W-2* and *Form 1040*. For example, reimbursing the travel costs associated with the minister's spouse to travel with the minister is a non-business expense, even if the church requires the spouse to accompany the minister for accountability purposes. The reimbursement of the travel expenses would be taxable to the minister.

Provision for Health Care Expenses

Providing for ministers' and other employees' health care needs is one of the top concerns for most churches. There are several options available, and churches, their ministers, and their employees should explore the various options to determine the option that will provide the greatest benefit to ministers with the best utilization of the church's resources.

Below are options churches may consider.

Group Health Insurance Plans. Qualifying group health insurance premiums paid by the church may be provided tax-free for the portion paid by the employer. A qualifying group health insurance policy means that the policy meets all the requirements of the Affordable Care Act (ACA) that is made available to a group of employees. Amounts paid by employees must be paid through a section 125 cafeteria plan to be paid with pre-tax dollars. Premiums paid by employees outside of a section 125 cafeteria plan are paid with post-tax dollars by the employee.

Individual Health Insurance Plans. While a church may pay for an employee's individual health insurance premium tax-free, the payment of individual insurance plans creates a health reimbursement plan. A plan providing for the payment of individual health insurance premiums must meet one of the approved plans. Not using an approved plan violates ACA requirements and may subject the church to a \$100-per-day, per-participant penalty. This penalty must be voluntarily reported to the IRS with payment of the penalty amount.

- ❖ **KEY POINT:** Excepted from the ACA requirements are plans involving fewer than two participants, and they can continue in much the same manner as prior to passage of the ACA. This includes the reimbursement of premiums for individual health insurance plans
- ❖ **KEY POINT:** Insurance for vision and dental is excepted from ACA requirements. Insurance premiums may be paid by the employer tax-free or paid through a qualifying section 125 plan by employees.

Section 125 Cafeteria Plan Flexible Spending Accounts (FSAs).

Churches offering section 125 cafeteria plans may include a provision for employees to establish health FSAs to cover out-of-pocket medical expenses. The FSA may be funded through tax-free employer contributions and/or through the employees' pre-tax salary reduction contributions to the plan.

For 2025, employee pre-tax salary reduction contributions are limited to \$3,300. In 2026, the limit slightly increases to \$3,400.

The FSA may not be used to pay for any individual insurance premiums or medical benefits other than for excepted services such as vision or dental plans. Allowing an FSA to pay for individual medical insurance policies causes the plan to fail the ACA market reforms and subjects the church to the \$100-per-day, per-participant penalty.

Participants in an FSA may not also participate in a Health Savings Account (HSA) offered by the church.

Generally, distributions from an FSA must be paid to reimburse the employee for qualified medical expenses. Qualified medical expenses are those incurred by an employee, or the employee's spouse and certain dependents (including a child under age 27 at the end of the year). Qualified expenses may include over-the-counter drugs.

FSAs are "use-it-or-lose-it" plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for either a grace period of up to 2½ months after the end of the plan year or a carryover of an amount not to exceed a certain dollar amount. If there is a grace period, any qualified medical expenses incurred in that period can be paid from any amounts left in the account at the end of the previous year.

If the plan allows for the option of rolling a set amount from one year to the following year, the limit for 2025 to 2026 plan years is \$660. In 2026, this amount increases to \$680. An employer is not permitted to refund any part of the balance to the employee. The carried-over amounts do not apply against the annual limitation discussed above.

Health Reimbursement Arrangements (HRAs). HRAs are employer-funded health plans that reimburse employees for qualified medical expenses up to a fixed dollar amount per year, tax-free. To comply with ACA requirements, the HRA must be integrated with a qualifying group health plan. Additionally, the HRA may only cover medical expenses of the persons participating in the integrated group health plan.

While there are many rules applicable to HRAs, there is a plan known as an Excepted Benefit HRA (EBHRA) that may be offered without many of the ACA complications. For example, it may be offered alongside a group health plan, but it does not have too many of the integrated requirements. The EBHRA may cover insurance only for

excepted benefits as well as certain other limited expenses. These plans have a maximum benefit of \$2,200 for 2026.

The traditional HRA may not reimburse for individual health insurance policy premiums. The HRA may reimburse for individual plan premiums for excepted benefits such as dental or vision benefits. To allow employers to provide for the reimbursement of individual health insurance policy premiums, two avenues have been created:

1. Qualified Small Employer Health Reimbursement Arrangement (QSEHRA). Small churches with fewer than 50 full-time employees may qualify for a QSEHRA. The following must be present for a QSEHRA:

- It must be offered to all eligible employees.
- Employees must have minimum essential health coverage.
- The employer may not offer group health insurance.
- It must be funded 100% by the employer.
- Written notice must be provided to employees.
- Maximum reimbursement for 2026 is \$6,450 for the employee only and \$13,100 for family coverage.

2. Individual Coverage Health Reimbursement Arrangement (ICHRA). A church of any size may establish an ICHRA. Greater flexibility may be available for these arrangements, but they do allow the reimbursement of premiums paid on individual health insurance plans. Employees offered the ICHRA may not be offered a traditional group health plan. There are no annual caps for the plan payments, and the amounts may roll from year to year. The plan must be offered on the same terms to all employees of the same class.

Health Savings Accounts (HSAs). HSAs create an option to provide for payment of health expenses when the group health insurance plans carry higher deductible limits.

An HSA is an account set up with a qualified trustee for eligible individuals to reimburse certain medical expenses. An HSA must be established by an individual covered by a qualified High Deductible Health Plan (HDHP), as defined by the IRS. For 2026, an HDHP is defined as:

	Self Only Coverage	Family Coverage
Minimum annual deductible	\$1,700	\$3,400
Maximum annual deductible and other out-of-pocket expenses within the network, if the plan uses network providers	\$8,500	\$17,000

Other health coverage may not be available except for coverages for accidents, disability, dental, vision, and long-term care. Contributions to the plan may be made:

- Directly by an individual and deducted on his or her individual tax return;

- Directly by an employer and not included in the employee’s income; or
- Directly by an employee by payroll deduction through a church’s section 125 cafeteria plan to be a pre-tax contribution.

Annual contributions are limited and may be indexed each year by the IRS. For 2026, contribution limits are \$4,400 for individual coverage and \$8,750 for family coverage. Those ages 55 and older can contribute an additional \$1,000 as a catch-up contribution.

Employees participating in FSAs provided by the church are prohibited from contributing to an HSA as are employees enrolled in any version of Medicare.

Section 403(b) Retirement Plans

A 403(b) plan, also known as a tax-sheltered annuity or retirement income account, is a retirement plan for certain employees of churches and other tax-exempt organizations. These plans have the following tax benefits: (1) Employees do not pay income tax on allowable contributions until they begin making withdrawals from the plan, usually after they retire. Note, however, that lay employees must pay Social Security and Medicare tax on their contributions to a 403(b) plan made under a salary reduction agreement. Due to a differing definition of taxable income for self-employment tax, ministers do not pay self-employment tax on a minister’s elective deferral into the 403(b) plan. (2) Earnings and gains on amounts in an employee’s 403(b) account are not taxed until they are withdrawn. (3) Employees may be eligible to claim the retirement savings contributions credit (Saver’s Credit) for elective deferrals contributed to a 403(b) account. (4) A portion of the retirement payments from certain 403(b) plans may be designated as housing allowance for ministers participating in church plans who are still credentialed ministers during retirement years.

There are dollar limits on the contributions that can be made to a 403(b) account each year. If contributions made to a 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. However, there are special catch-up elections that allow for greater contributions.

The dollar limit on total annual contributions to 403(b) plans is \$72,000 for 2026. (The annual limits include amounts deferred through regular elective deferrals but do not include the additional deferrals attributed to catch-up contributions.)

The dollar limit on annual elective deferrals an individual could make to a 403(b) retirement plan is \$24,500 for 2026.

The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who attain age 50 by the end of the year is \$8,000 for 2026. A new additional catch-up contribution is available for participants ages 60, 61, 62, or 63, raising their limit to \$11,250. Beginning in 2026, a new provision requires catch-up contributions to be contributed to Roth accounts within the 403(b) plan if a participant's income exceeds \$150,000 in 2025 for contributions made in 2026. If a church's plan does not provide for Roth accounts, it must be amended by December 31, 2026, to be eligible to receive these contributions from higher-income employees. Due to the definition of wages for this provision, it does not apply to ministers.

Additionally, church 403(b) plans may offer special catch-up contributions not available to other types of retirement plans or all 403(b) plans. One provision allows for a greater contribution for employees who have completed at least 15 years of service with a qualified organization. Another provision allows for additions to be made even if an employee's income does not allow for contributions due to statutory limits on contributions to 403(b) plans. These rules are intricate, but they should be explored for participants who may have entered into retirement planning later in life.

See IRS *Publication 571* for greater details on these plans.

Complying with Federal Payroll Tax Reporting Obligations

Step 1. Obtain an employer identification number (EIN) from the federal government if this has not been done.

This number must be recorded on some of the forms listed below and is used to reconcile a church's deposits of withheld taxes with the *Forms W-2* it issues to employees. The employer identification number (EIN) is a nine-digit number that looks like this: 00-0246810. If your church does not have an EIN, you may apply for one online. Go to the IRS website at *IRS.gov* for information. You may also apply for an EIN by submitting the *Form SS-4* by fax or mail to the IRS. You should have only one EIN. A church should not use the EIN of another church or organization, even if the church is part of a denominational ruling.

✦ **KEY POINT:** An EIN is not a tax exemption number and has no relation to your nonprofit corporation status. It merely identifies you as an employer subject to tax withholding and reporting and ensures that your church receives proper credit for payments of withheld taxes.

✦ **KEY POINT:** Each EIN has a responsible party attached to it. This is the contact person the IRS associates with the organization. IRS regulations now require EIN holders to update responsible party information within 60 days of any change by filing *Form 8822-B, Change of Address or Responsible Party – Business*. Due to continual changing

leadership, most churches need to file this form to update the information with the IRS. Churches may also need to file the form each time there is a change in the position reported. Currently, this form must be filed in paper.

Step 2. Determine whether each church worker is an employee or independent contractor.

In some cases, it is difficult to determine whether a particular worker is an employee or independent contractor. If in doubt, churches should treat a worker as an employee since substantial penalties can be assessed against a church for treating a worker as an independent contractor whom the IRS later reclassifies as an employee. In general, an independent contractor is one who is not subject to the control of an employer with respect to how a job is to be done. Further, an independent contractor typically is engaged in a specific trade or business and offers his or her services to the general public.

The IRS and the courts have applied various tests to assist in classifying a worker as an employee or independent contractor. Factors that tend to indicate employee status include the following:

- The worker is required to follow an employer's instructions regarding when, where, and how to work.
- The work performed is a part of the employer's usual course of business.
- The worker receives on-the-job training from an experienced employee.
- The worker is expected to perform the services personally and not use a substitute.
- The employer, rather than the worker, hires and pays any assistants.
- The worker has a continuing working relationship with the employer.
- The employer establishes set hours of work.
- The worker is guaranteed a regular wage amount for an hourly, weekly, or other period of time.
- The worker is expected to work for a pre-established required time.
- The work is done on the employer's premises.
- The worker must submit regular oral or written reports to the employer.
- The worker's business expenses are reimbursed by the employer.
- The employer furnishes the worker's tools, supplies, and equipment.
- The worker does not work for other employers.
- The worker does not advertise his or her services to the general public.

Not all these factors must be present for a worker to be an employee. But if most of them apply, the worker is an employee. The most important factors are the first two listed because they indicate an extensive amount of control over the worker and that the worker is needed for the general operations of the business to work. Once again: If in doubt, treat the worker as an employee.

✦ **KEY POINT:** Some fringe benefits are nontaxable only when received by employees. For example, medical insurance may only be provided on a tax-free basis to an employee. If a church incorrectly reports a minister's compensation on *Form 1099-NEC*, any medical insurance paid by the church for the minister becomes a taxable benefit.

Step 3. Obtain the Social Security number (SSN) for each worker.

After determining whether a worker is an employee or an independent contractor, you must obtain the worker's SSN. Whether the worker is classified as an employee or as an independent contractor, it is necessary to obtain the worker's SSN. A worker who does not have an SSN can obtain one by filing *Form SS-5*. This is a Social Security Administration (SSA) form, not an IRS form.

Employees, except for ministers, need to provide their employer with a *Form W-4* to provide an SSN and enable the employer to know how much income tax to withhold from their pay. Ministers may provide a *Form W-4* if they elect to have federal income tax withheld from their pay. To provide maximum accuracy, employees are encouraged to use the Tax Withholding Estimator available at [IRS.gov/W4app](https://www.irs.gov/W4app).

Independent contractors should provide an SSN by submitting *Form W-9*. This also provides other needed information in addition to the SSN needed to prepare the worker's *Form 1099-NEC* (discussed later). If an independent contractor performs services for a church (and annually earns at least \$600 for payments made on or prior to December 31, 2025, and annually earns \$2,000 for tax years beginning after December 31, 2025) but fails to provide an SSN, then the church is required by law to withhold a specified percentage of compensation as backup withholding. The backup withholding rate is 24% for 2026. (Backup withholding may be stopped by providing the church with a correct SSN.)

Churches can be penalized if the SSN they report on a *Form 1099-NEC* is incorrect, unless they have exercised due diligence. A church will be deemed to have exercised due diligence if it has independent contractors provide SSNs using *Form W-9*. It is a good idea for churches to present independent contractors (e.g., guest speakers, contract laborers) with a *Form W-9*, and to backup withhold unless the worker returns the form. The church should retain each

Form W-9 to demonstrate its due diligence.

If a church must apply the backup withholding rules to a contractor's pay, it must be deposited with the IRS and reported to the IRS on *Form 945*. *Form 945* for 2025 must be filed with the IRS by February 2, 2026. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 10, 2026. Looking ahead, *Form 945* for 2026 must be filed with the IRS by February 1, 2027, with an extended date of February 10, 2027, if all tax deposits are made.

✦ **KEY POINT:** Many times, churches will host guest speakers or other workers from other countries. Nonresident aliens are not taxed in the same manner as U.S. citizens. While they are not subject to the above rules, they are subject to other mandatory reporting and withholding rules. Prior to making payments, churches should seek professional assistance in determining the applicable reporting and withholding rules for payments made to workers from other countries.

Step 4. Compute each employee's taxable wages.

The amount of taxes that a church should withhold from an employee's wages depends on the amount of the employee's wages and the information contained on his or her *Form W-4*. A church must determine the wages of each employee that are subject to withholding. Wages subject to federal income tax withholding include pay given to an employee for services performed. The pay may be in cash or in other non-cash forms. Measure pay that is not in money (such as property) by its fair market value and not the cost to the church. Wages often include several items in addition to salary. (There is a comprehensive list of examples in Step 10.) In addition to determining wages subject to withholding for federal income tax, a church must determine wages subject to withholding of Social Security tax and Medicare tax for non-minister employees. While most of the time the wages subject to all three taxes are the same, the definitions are not identical.

Step 5. Determine the amount of income tax to withhold from each employee's wages.

Employers use IRS *Publication 15-T* to determine the amount of federal income tax to withhold from their employees' wages.

Employees request adjustments to their withholding using *Form W-4* to provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in IRS *Publication 15-T* allow employers to figure withholding, regardless of whether the employee provided a *Form W-4* in an earlier year or provides the new version of *Form W-4* in 2026. IRS *Publication 15-T* also allows employers to figure withholding

based on their payroll system (automated or manual) and withholding method of choice.

IRS *Publication 15-T* describes five methods for determining the amount of income taxes to be withheld from an employee's wages in 2026. The appropriate method depends on whether the employee's *Form W-4* was provided before 2020 when changes were initiated on the form. Employees were not required to complete a new *Form W-4* when the changes occurred:

1. Percentage method tables for automated payroll systems
2. Wage bracket method tables for manual payroll systems with *Forms W-4* from 2020 or later
3. Wage bracket method tables for manual payroll systems with *Forms W-4* from 2019 or earlier
4. Percentage method tables for manual payroll systems with *Forms W-4* from 2020 or later
5. Percentage method tables for manual payroll systems with *Forms W-4* from 2019 or earlier

✳ **KEY POINT:** The IRS asserts that the current method for computing withheld taxes is allegedly simpler. But many employers believe the opposite is true. Fortunately, the IRS provides an online withholding estimator at [IRS.gov/W4App](https://www.irs.gov/W4App) to assist employees in determining the amount to include on *Form W-4*.

✳ **KEY POINT:** Churches should require all employees to provide an updated *Form W-4* to remove all the "pre-2020" *Forms W-4* from its system to simplify payroll calculations. This is especially true if a church is calculating payroll manually.

Wages paid to a minister as compensation for ministerial services are exempt from income tax withholding. However, ministers who report their income taxes as employees can enter into a voluntary withholding arrangement with their church. Under such an arrangement, the church withholds federal income taxes from the minister's wages as if the minister's wages are not exempt from withholding. Some ministers find voluntary withholding attractive since it avoids the often-difficult task of budgeting for four significant estimated tax payments.

A minister may initiate voluntary withholding by providing the church with a completed *Form W-4*. The filing of this form is deemed to be a request for voluntary withholding. A minister may also request an amount of withholding through any other written instruction.

Voluntary withholding arrangements may be terminated at any time by either the church or minister, or by mutual consent.

The tax code specifies that ministers are self-employed for Social Security with respect to services performed in the

exercise of ministry. Therefore, a church whose minister elects voluntary withholding is only obligated, and may only agree, to withhold the minister's federal income taxes. The minister is still required to use the estimated tax procedure to report and prepay self-employment taxes. However, ministers electing voluntary withholding can indicate on *Form W-4* Line 4c that they want an additional amount of income taxes to be withheld from each pay period that will be sufficient to pay the estimated self-employment tax liability by the end of the year. This additional withholding of income taxes becomes a credit that can be applied against a minister's self-employment taxes on *Form 1040*. It is reported by the church as additional income taxes withheld on its quarterly *Form 941*. Many churches incorrectly report these additional withholdings as Social Security and Medicare taxes.

Since any tax paid by voluntary withholding is deemed to be evenly paid throughout the tax year, a minister who pays self-employment taxes using this procedure may not be liable for any underpayment penalty, assuming that sufficient taxes are withheld.

Step 6. Withhold Social Security and Medicare taxes from non-minister employees' wages.

Employees and employers each pay Social Security and Medicare taxes (FICA) equal to 7.65% of an employee's wages when wages paid are \$100 or more in a calendar year (for a total of 15.3%). The 7.65% tax rate is comprised of two components: (1) a Medicare hospital insurance (HI) tax of 1.45%, and (2) an old age, survivor and disability (Social Security) tax of 6.2%. There is no maximum amount of wages subject to the Medicare tax. For 2025, the maximum wages subject to the Social Security tax (the 6.2% amount) was \$176,100. It increases to \$184,500 for 2026.

The employee portion of the Medicare HI tax is increased by an additional tax of 0.9% on wages received in excess of \$200,000. (This tax is not matched by the employer.) This additional tax is required to be withheld once wages paid to a non-minister employee reach \$200,000. However, unlike the general 1.45% Medicare HI tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2026.

✳ **KEY POINT:** Even though the tax does not start until \$250,000 for married couples filing jointly, the withholding mandate starts with any employee's wages exceeding \$200,000. Therefore, it is possible for an employee to have the additional tax withheld but not owe the additional tax. In these instances, the additional tax withheld is treated as an additional tax payment

on the employee's individual tax return. Since the tax is on combined wages for married couples filing jointly, it is also possible that the combination of wages on a couple's *Form 1040* will initiate the tax even though there has not been any associated withholding of the tax.

- ★ **KEY POINT:** Federal law allowed churches that had non-minister employees as of July 1984 to exempt themselves from the employer's share of Social Security and Medicare taxes by filing *Form 8274* with the IRS by October 31, 1984. Many churches did so. The exemption was available only to those churches that were opposed for religious reasons to the payment of Social Security taxes. (Prior to 1984, nonprofit organizations, including churches, did not participate in the Social Security system.) The effect of such an exemption is to treat all non-minister church employees as self-employed for Social Security purposes. Such employees must pay the self-employment tax (SECA) if they are paid \$108.28 or more for the year. Churches hiring their first non-minister employee after 1984 have until the day before the due date for their first quarterly *Form 941* to file the exemption application. Churches can revoke their exemption by filing *Form 941* accompanied by full payment of Social Security and Medicare taxes for that quarter.

Step 7. The church must deposit the taxes it withholds.

Churches accumulate three kinds of federal payroll taxes:

1. Income taxes withheld from employees' wages
2. The employees' share of Social Security and Medicare taxes (withheld from employees' wages)
3. The employer's share of Social Security and Medicare taxes

Most employers must deposit payroll taxes on a monthly or semiweekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter lookback period. For 2026, the lookback period will be July 1, 2024, through June 30, 2025.

Monthly Depositor Rule. Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes for 2026 on a monthly basis. Payroll taxes withheld during each calendar month, along with the employer's share of FICA taxes, must be deposited by the fifteenth day of the following month.

Semiweekly Depositor Rule. Churches that reported payroll taxes of more than \$50,000 in the lookback period must deposit their withheld taxes on a semiweekly basis. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

\$100,000 Next-Day Deposit Rule. Regardless of whether a church is a monthly schedule depositor or a semiweekly schedule depositor, if accumulated taxes withheld reach \$100,000 or more on any day during a deposit period, the church must deposit the taxes by the next business day. Additionally, any employer subject to this deposit rule becomes a semiweekly depositor for the remainder of the calendar year and the following calendar year.

Payment with Return Rule. If you accumulate less than a \$2,500 tax liability during the current or previous quarter, you may make a payment with *Form 941* instead of depositing monthly. See IRS *Publication 15* for more information.

As mentioned in Step 1, the failure to deposit payroll taxes withheld from employees is one of the few instances where the IRS may assess penalties to individual officers and other persons associated with the church. The penalty is based on the unpaid income taxes withheld, plus the employees' portion of the withheld FICA taxes. The courts have held that the decision to pay other expenses of the church instead of depositing payroll taxes is grounds for assessing the penalty to the decision-maker. Churches may file *Form 2848, Power of Attorney and Declaration of Representative*, with the IRS naming a trusted attorney or CPA the authority to receive notices from the IRS related to payroll filings as a method of establishing a separate line of communication to make leadership aware of failures to deposit taxes or file returns.

- ★ **KEY POINT:** All deposits must be made using electronic funds transfers. Payments may be made free through 1) a business tax account; 2) IRS DirectPay; or 3) Electronic Federal Tax Payment System® (EFTPS). Enrollment in one of these payment avenues may be required, and normally, payments must be scheduled by 8 p.m. ET before the date the deposit is due. There are penalties for depositing late, or for mailing payments directly to the IRS that are required to be electronically deposited, unless you have reasonable cause for doing so. Other avenues for depositing taxes may be available, but fees may be incurred. You can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf.

- ★ **KEY POINT:** Under Executive Order 14247, the IRS is mandated to eliminate all paper payments both to and from the IRS. Compliance efforts began in September 2025 with individual tax refund payments. Transitioning for other payments is expected. Before sending any payments to the IRS using a paper check, be sure to review the current guidance on this topic, since instructions on forms may not be updated.

- ★ **KEY POINT:** New churches in their first year of existence are treated as a monthly depositor unless the \$100,000 next-day deposit rule applies. Additionally, new churches

indicating they will be making payroll tax deposits may be pre-enrolled in EFTPS and may receive a letter with their four-digit EFTPS PIN.

Step 8. All employers subject to income tax withholding, Social Security and Medicare taxes, or both, must file *Form 941* quarterly.

Form 941 reports the number of employees and amount of Social Security and Medicare taxes and withheld income taxes that are payable. *Form 941* is due on the last day of the month following the end of each calendar quarter.

Quarter	Ending	Due Date of <i>Form 941</i>
1st (January–March)	March 31	April 30
2nd (April–June)	June 30	July 31
3rd (July–September)	September 30	October 31
4th (October–December)	December 31	January 31

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

Form 941 may be filed electronically through a tax professional or payroll provider, or by utilizing an IRS-approved software. For more information, visit the IRS website at [IRS.gov/businesses/e-file-employment-tax-forms](https://www.irs.gov/businesses/e-file-employment-tax-forms).

★ **KEY POINT:** *Form 944* replaces *Form 941* for eligible small employers. The purpose of *Form 944* is to reduce the burden on the smallest employers by allowing them to file their employment tax returns annually, and in most cases, pay the employment tax due with their return. Generally, you are eligible to file this form only if your payroll taxes for the year are \$1,000 or less. Do not file *Form 944* unless the IRS has sent your church a notice telling you to file it. If a church believes it is eligible for this filing, it may contact the IRS and request a change in its filing requirements.

Step 9. Prepare a *Form W-2* for each employee, including ministers, employed by the church.

A church reports each employee's taxable income and withheld income taxes as well as Social Security and Medicare taxes on this form. A church should furnish *Copies B, C, and 2* of the 2025 *Form W-2* to each employee by February 2, 2026. File *Copy A* with the SSA by February 2, 2026. If filing paper copies, send all *Copies A* with *Form W-3, Transmittal of Wage and Tax Statements*. If a church files 10 or more forms of any combination of *Form W-2* or *Form 1099*, it must submit the forms electronically. Churches new to the electronic filing requirements may be able to utilize the SSA's Business Services Online option to electronically file the forms. There are also other independent providers available to provide electronic filing at a reasonable price.

★ **KEY POINT:** Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, \$1,000 should read "1000.00". Government scanning equipment assumes that the last two figures of any amount are cents. If you report \$40,000 of income as "40000", the scanning equipment would interpret this as 400.00 (\$400)!

★ **KEY POINT:** A church may be in an area of the country designated for disaster relief affecting filing deadlines. Information related to disaster relief may be found at [IRS.gov/newsroom/tax-relief-in-disaster-situations](https://www.irs.gov/newsroom/tax-relief-in-disaster-situations).

You may need some assistance with some of the boxes on *Form W-2*. Consider the following:

Box a. Report the employee's SSN. If you do not provide the correct employee's name and SSN on *Form W-2*, you may owe a penalty unless you have reasonable cause.

Insert "applied for" if an employee does not have an SSN but has applied for one. If you are filing the forms electronically, you will need to leave the box blank as most systems will not accept "applied for". Additionally, most systems may not allow the box to be blank, so steps should be taken to avoid this situation.

Box b. Insert your church's federal EIN. This is a nine-digit number that is assigned by the IRS. (See previous section on obtaining an EIN, if you do not have one.) Some churches have more than one EIN. (E.g., some churches that operate a private school have a number for both the church and the school.) Be sure that the EIN listed on an employee's *Form W-2* is the one associated with the employee's actual employer.

★ **KEY POINT:** A church should not have more than one EIN. If your church has more than one, then steps should be taken to bring all payroll reporting under one number and discontinue use of the second number.

Box c. Enter your church's name, address, and ZIP code. This should be the same address reported on your *Form 941*.

Box d. You may use this box to identify individual *Forms W-2*. You are not required to use this box.

Box e. Enter the employee's name.

Box f. Enter the employee's address and ZIP code.

Box 1. Report all federal taxable wages paid to workers who are treated as employees for federal income tax reporting purposes. This includes:

- Salary, bonuses, prizes, and awards.
- Taxable fringe benefits (including the cost of employer-provided group term life insurance coverage that exceeds \$50,000).

- Costs associated with life insurance not offered through a group term life insurance benefit plan and that is not considered as key man life insurance.
- The value of the personal use of an employer-provided car.
- Most Christmas, birthday, anniversary, retirement, and other special occasion gifts (including “love” gifts) paid by the church. Tax-free gifts may not be provided to an employee by an employer other than of a token value.
- Business expense reimbursements paid under a non-accountable plan (one that does not require substantiation of business expenses within a reasonable time or does not require excess reimbursements to be returned to the church, or reimburses expenses out of salary reductions). Also note that such reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees.
- Excess reimbursements paid through an accountable plan are included in an employee’s gross income and are reported on *Form W-2*. This may include a per diem or mileage allowance paid in excess of the approved amounts published by the IRS. Report the amount treated as substantiated (that is, the nontaxable portion) in Box 12 using code L.
- Moving expenses and expense reimbursements (except for reimbursements of the travel expenses of members of the U.S. armed forces on active duty, and travel expense reimbursements for certain members of the U.S. intelligence community beginning in 2026).
- Any portion of a minister’s self-employment taxes paid by the church.
- Amounts includible in income under a nonqualified deferred compensation plan (NQDC) because of section 409A.
- Designated Roth contributions made under a section 403(b) salary reduction agreement.
- Church reimbursements of a spouse’s travel expenses incurred while accompanying a minister on a business trip represent income to the minister unless the spouse’s presence serves a legitimate and necessary business purpose and the spouse’s expenses are reimbursed by the church under an accountable plan.
- Churches that make a below-market loan to a minister of at least \$10,000 create taxable income to the minister. (Some exceptions apply.) A below-market loan is a loan on which no interest is charged, or on which interest is charged at a rate below the applicable federal rate. (Employer-provided loans may create taxable income for the full amount of the loan. Any loan from a church to an individual should be reviewed by professional counsel.)

- Churches that forgive a minister’s debt to the church create taxable income for the minister.
- Severance pay.
- Payment of a minister’s personal expenses by the church.
- Employee contributions to an HSA unless contributed through a section 125 cafeteria plan.
- Employer contributions to an HSA if includible in the income of the employee.
- Employee contributions towards group health insurance premiums, unless they are contributed through a section 125 cafeteria plan.

For ministers who report their income taxes as employees, do not report in Box 1 the annual fair rental value of a parsonage or any portion of a minister’s compensation that was designated (in advance) as a housing allowance by the church. Also, some contributions made to certain retirement plans out of an employee’s wages are not reported. If the nontaxable portion of a housing allowance (the lesser of actual expenses or the fair rental value plus utilities) is less than the church-designated allowance, it is the minister’s responsibility to report the excess housing allowance as additional income on Line 1h of *Form 1040* (if an employee) or on *Schedule C* (if self-employed; however, such a status would be rare).

⚠ CAUTION: Taxable fringe benefits not reported as income in Box 1 may constitute an automatic excess benefit transaction exposing certain recipients and members of a church’s governing body to intermediate sanctions in the form of substantial excise taxes.

✳ KEY POINT: Churches should not include in Box 1 the annual fair rental value of a parsonage or a housing allowance provided to a minister as compensation for ministerial services.

Box 2. List all federal income taxes withheld from the employee’s wages. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on your four *Forms 941*.

Box 3. Report an employee’s wages subject to the Social Security component (the 6.2% rate for 2025) of FICA taxes. Box 3 should not list more than the maximum wage base for the Social Security component of FICA taxes (\$176,100 for 2025, \$184,500 for 2026). This box usually will be the same as Box 1 subject to the wage limitations, but not always. For example, certain retirement contributions are included in Box 3 that are not included in Box 1. To illustrate, contributions to a 403(b) plan by salary reduction agreement may be excludable from income and not reportable in Box 1, but they are subject to FICA taxes and accordingly they represent Social Security and Medicare wages for non-minister employees.

❖ **KEY POINT:** Remember that ministers (including those who report their income taxes as employees) are self-employed for Social Security with respect to their ministerial services, and so they pay self-employment taxes rather than the employee's share of Social Security and Medicare taxes. There should never be any amounts in Boxes 3, 4, 5, or 6 on a minister's *Form W-2*.

Churches that filed a timely *Form 8274* exempting themselves from the employer's share of taxes do not report the wages of non-minister employees in this box since such employees are considered self-employed for Social Security purposes.

Box 4. Report the Social Security component (6.2%) of Social Security and Medicare taxes withheld from a non-minister employee's wages. This tax is imposed on all taxable wages up to a maximum of \$176,100 for 2025 and \$184,500 for 2026. Do not report the church's portion (the "employer's share") of Social Security and Medicare taxes. Ministers who report their income taxes as employees are still treated as self-employed for Social Security with respect to compensation from the performance of ministerial services. For ministers, this box should be left blank.

Box 5. Report a non-minister employee's current and deferred (if any) wages subject to the Medicare component (1.45%) of FICA taxes. This will be an employee's entire wages regardless of the amount. There is no ceiling. For persons earning less than the annual maximum earnings subject to the 6.2% Social Security tax of \$176,100 for 2025 (\$184,500 for 2026), Box 3 and Box 5 both should show the same amount. If you pay more than \$176,100 to a non-minister employee in 2025, Box 3 should show \$176,100 and Box 5 should show the full amount of wages paid that are subject to the tax.

Box 6. Report the Medicare component of FICA taxes withheld from the non-minister employee's wages. This tax is imposed on all taxable wages, current and deferred (if any), regardless of the amount. The box will also include the additional Medicare tax withheld on wages greater than \$200,000 as previously discussed. For ministers, this box should be left blank.

Box 10. Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided day care facilities and amounts paid or incurred for dependent care assistance through a section 125 cafeteria plan. Report all amounts paid or incurred, including those in excess of the exclusion. For 2025, the maximum available exclusion is \$5,000, and for 2026 it increases to \$7,500. Include any amounts over the exclusion amount in Boxes 1, 3, and 5. For more information, see IRS *Publication 15-B*.

❖ **KEY POINT:** Many churches do not realize that providing a discount at the church's day care program, or in some instances a preschool program, may be the operation of a dependent care plan, and by not realizing this, churches then fail to value the discount for reporting in Box 10 or inclusion in taxable income if more than the available exclusion. If this is a church's practice, it should obtain professional advice to confirm the plan complies with all applicable rules for dependent care plans, not just the reporting rules.

❖ **KEY POINT:** The One Big Beautiful Bill Act raised the exclusion amount for dependent care benefits from \$5,000 to \$7,500 starting in 2026.

Box 11. The purpose of Box 11 is for the SSA to determine if any part of the amount reported in Boxes 1, 3, or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits. Report distributions to an employee from a non-qualified plan in Box 11. Also, report these distributions in Box 1. Under non-qualified plans, deferred amounts that are no longer subject to a substantial risk of forfeiture are taxable even if not distributed. Report these amounts in Boxes 3 (up to the Social Security wage base) and 5. Do not report in Box 11 deferrals included in Boxes 3 or 5 and deferrals for current year services (such as those with no risk of forfeiture).

If you made distributions and also are reporting any deferrals in Boxes 3 or 5, do not complete Box 11. See IRS *Publication 957*.

Unlike qualified plans, non-qualified plans do not meet the qualification requirements for tax-favored status. Non-qualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation, such as a rabbi trust. Welfare benefit plans and plans providing termination pay, or early retirement pay, are not generally non-qualified plans.

❖ **KEY POINT:** Non-qualified retirement plans are subject to many difficult technical rules and substantial penalties for compliance failures. These rules apply to any promises to pay a retired minister out of the general assets of the church. Additional information is available in IRS *Publication 15* and IRS *Publication 957*, but qualified professional guidance is also recommended.

Box 12. Insert the appropriate code and dollar amount in this box. Insert the code letter followed by a space, and then insert the dollar amount on the same line within the box. Do not enter more than four codes in this box. If more are needed, use another *Form W-2*. Use capital letters for the codes and remember not to use dollar signs or commas. For example, to report a \$3,000 contribution to a section 403(b) tax-sheltered annuity, you would report "E 3000.00" in this

box. The codes are as follows:

A — This will not apply to church employees.

B — This will not apply to church employees.

C — You (the church) provided your employee with more than \$50,000 of group term life insurance. Report the value of coverage in excess of \$50,000. (See IRS *Publication 15-B* for calculation of the value of the coverage in excess of \$50,000.) It should also be included in Box 1 (and in Boxes 3 and 5 for non-minister employees).

▲ CAUTION: This is the special consideration for benefits meeting the definition of “group term life insurance” plans and should not be confused with the taxable benefit created by providing life insurance only to select employees. See more information contained within this guide on this topic.

D — Generally not applicable to churches; however, some churches have adopted 401(k) plans and would use this box to report elective deferrals into those plans.

E — The church made contributions to a 403(b) plan pursuant to a “salary reduction agreement” on behalf of the employee. Report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Boxes 3 and 5 for non-minister employees since it is subject to Social Security and Medicare taxes with respect to such workers.

F — Generally not applicable to churches.

G — Generally not applicable to churches.

H — Generally not applicable to churches.

J — You (the church) are reporting sick pay. Show the amount of any sick pay that is not includible in the employee’s income because he or she contributed to the sick pay plan.

K — Generally not applicable to churches.

L — You (the church) reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount you reimbursed exceeds the amounts allowed under these methods. Enter code “L” in Box 12, followed by the amount of the reimbursements that equal the allowable standard mileage or per diem rates. Any excess should be included in Box 1. For non-minister employees, report the excess in Boxes 3 (up to the Social Security wage base) and 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.

M, N — Generally not applicable to churches.

P — Not applicable to churches.

Q — Generally not applicable to churches.

R — Report employer contributions to an Archer Medical Savings Account on behalf of the employee. Any portion that is not excluded from the employee’s income also should be included in Box 1.

S — Report employee salary reduction contributions to a SIMPLE individual retirement account (IRA). However, if the SIMPLE account is part of a 401(k) plan, use code D.

T — Report amounts paid (or expenses incurred) by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program that are not included in Box 1.

V — Generally not applicable to churches.

W — Report employer contributions to an HSA. Include amounts the employee elected to contribute using a section 125 cafeteria plan.

Y — It is no longer necessary to report deferrals under a section 409A NQDC plan in Box 12 using code Y.

Z — Report all amounts deferred (including earnings on deferrals) under an NQDC plan that are included in income under section 409A of the tax code because the NQDC fails to satisfy the requirements of section 409A. Do not include amounts properly reported on *Forms 1099-NEC* or *W-2* for a prior year. Also, do not include amounts considered to be subject to a substantial risk of forfeiture for purposes of section 409A. The amount reported in Box 12 using code Z is also reported in Box 1.

AA — Generally not applicable to churches unless a church operates a 401(k) plan.

BB — Report designated Roth contributions under a section 403(b) salary reduction agreement. Do not use this code to report regular elective deferrals to a section 403(b) plan, as these are reported under code E.

DD — The ACA requires employers to report the cost of coverage under an employer-sponsored group health plan. IRS *Notice 2011-28* provided relief for smaller employers filing fewer than 250 *Forms W-2* by making the reporting requirement optional for them until further guidance is issued by the IRS. The reporting under this provision is for information only; the amounts reported are not included in taxable wages and are not subject to new taxes.

EE — Generally not applicable to churches.

FF — Use this code to report the total amount of permitted benefits under a QSEHRA. The maximum reimbursement for an eligible employee under a QSEHRA for 2025 is \$6,350 (\$12,800 if it also provides reimbursements for family members). Report the amounts of payments and

reimbursements the employee is entitled to receive under the QSEHRA for the calendar year, not the amount the employee actually receives. For example, a QSEHRA provides a permitted benefit of \$3,000. If the employee receives reimbursements of \$2,000, report a permitted benefit of \$3,000 in Box 12 with code FF.

GG — Generally not applicable to churches.

HH — Generally not applicable to churches.

II — Generally not applicable to churches.

TA — Report the amount contributed to a qualifying Trump Account for a qualifying employee or their dependent (new for the tax year 2026 *Form W-2*).

TP — Report the amount of qualified tips paid to an employee (new for the tax year 2026 *Form W-2*).

TT — Report the amount of qualified overtime paid to the employee during the tax year (new for the tax year 2026 *Form W-2*).

❖ **KEY POINT:** The One Big Beautiful Bill Act created deductions available for taxpayers receiving qualified tips or qualified overtime. These amounts are required to be reported by the employer to the employee. The deductions are effective for the 2025 tax year.

However, the IRS announced that 2025 will be a transitional period, and thus, 2025 *Forms W-2* and 1099 will not be updated.

The agency also announced that no penalties will be assessed for 2025 for failure to separately report the total amount of qualified overtime compensation or for failure to separately report amounts reasonably designated as cash tips or the occupation of the individual receiving these tips. The IRS encourages employers to find other acceptable methods to communicate this information to employees for the 2025 tax year, including utilizing Box 14 on the 2025 *Form W-2*.

Separately, in November, the IRS announced eligible occupations for the qualified tips deduction. (See [IRS.gov](https://www.irs.gov) and search for “eligible occupations”.)

Box 13. Check the appropriate box.

Statutory Employee. Churches rarely, if ever, have statutory employees. These include certain drivers, insurance agents, and salespersons.

Retirement Plan. Mark this checkbox if the employee was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE IRA.

Third-Party Sick Pay. Generally not applicable to churches.

Box 14. This box is optional. Use it to provide information to an employee. Some churches report a church-designated housing allowance in this box. The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its *IRS Publication 517*, but this is not a requirement.

❖ **KEY POINT:** Note these changes coming with the 2026 tax year:

Box 14a. Utilize this box as described above for Box 14.

Box 14b. For a taxpayer to claim a deduction for qualified tips listed in Box 12 Code TT, they must work in a qualifying industry. Approved industry codes have been established by the IRS, and the applicable code must be reported in this box starting with 2026 *Forms W-2*.

💰 **TAX TIP:** The IRS has provided the following suggestions to reduce the discrepancies between amounts reported on *Forms W-2*, *W-3*, and 941: First, be sure the amounts on *Form W-3* are the total amounts from *Forms W-2*. Second, reconcile *Form W-3* with your four quarterly *Forms 941* by comparing amounts reported for: (1) Income tax withholding (Box 2); (2) Social Security and Medicare wages (Boxes 3, 5, and 7); and (3) Social Security and Medicare taxes (Boxes 4 and 6). Amounts reported on *Forms W-2*, *W-3*, and 941 may not match for valid reasons. If they do not match, you should determine that the reasons are valid. The SSA will issue an inquiry notice when these amounts do not match.

Step 10. Prepare a *Form 1099-NEC* for each independent contractor receiving non-employee compensation over the reporting threshold.

By February 2, 2026, churches must furnish *Copy B* of *Form 1099-NEC, Nonemployee Compensation* to any independent contractor to whom the church paid nonemployee compensation of \$600 or more in 2025. This form (rather than a *Form W-2*) should be provided to clergy who report their federal income taxes as self-employed, since the U.S. Tax Court and the IRS have both ruled that a worker who receives a *Form W-2* rather than a *Form 1099-NEC* is presumed to be an employee rather than self-employed. The reverse is also true. When a worker receives a 1099-NEC, rather than a W-2, the worker is presumed not to be an employee and is ineligible for favorable tax treatment of employer-provided benefits. Other persons to whom churches may be required to issue a *Form 1099-NEC* include evangelists, guest speakers, and contractors.

💰 **TAX TIP:** Churches should not only look at payments to individuals for *Form 1099-NEC* reporting. Payments to limited liability companies (LLCs) and partnerships are also subject to reporting on *Form 1099-NEC*. Payments

to attorneys in excess of the reporting thresholds are reportable even if the law firm is incorporated. These payees are often overlooked when preparing *Form 1099-NEC*.

Whether filing paper forms or electronically, the forms are due to the IRS by February 2, 2026. Churches must send the actual red copies of *Copy A of Forms 1099-NEC*, along with *Form 1096* if submitting paper forms. The forms are required to be filed electronically if the church is filing 10 or more reporting forms of any type, including *Forms W-2, 1099-NEC*, and *1099-MISC*.

\$ TAX TIP: There are independent vendors who can easily assist with the electronic filing for a reasonable fee if a church’s accounting software does not provide for the electronic filing. Additionally, the IRS’s Information Return Intake System (IRIS) is available for the 2025 tax year filings. It allows employers to file electronically without special software. Filing electronically is a more secure option than submitting paper returns to the IRS and is required for most employers for the 2025 tax year. IRIS is a free system, but employers must apply to be able to use it.

To illustrate, if a guest speaker visited a church in 2025 and received compensation from the church in an amount of \$600 or more (net of any housing allowance or travel expenses reimbursed under an accountable plan), then the church must issue *Copy B of Form 1099-NEC* by February 2, 2026.

Exceptions apply. For example, a church need not issue a *Form 1099-NEC* to a corporation (other than to attorneys that are incorporated), or to a person who will be receiving a *Form W-2* for services rendered to the church. (All income should be reported on the *Form W-2*.) Payments to persons made with a credit card or through an outside processor such as Venmo® or PayPal® are not required to be reported on *Form 1099-NEC* since the payment processing centers report these payments through the *Form 1099-K* reporting requirements. This does not apply to payments made through Zelle® or ACH banking transactions.

Travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the \$600 figure. Additionally, if supplies are purchased from a self-employed person, the amount does not count toward the \$600 filing limit if the amount for the supplies has been separately stated on the invoice from the contractor.

To complete *Form 1099-NEC*, the church will need to obtain the recipient’s name, address, and SSN/EIN. Churches should obtain this information at the time services are rendered since it often can be difficult to obtain the necessary information at a later date. *Form W-9* can be used to obtain this information. If an independent contractor who is paid more than the reporting thresholds during the

course of a year by a church refuses to provide an SSN or EIN, then the church is required to withhold a percentage of the person’s total compensation as backup withholding. See Step 3 above. The backup withholding rate is 24%.

★ KEY POINT: The One Big Beautiful Bill Act granted long-awaited filing relief. For payments made **after** December 31, 2025, reporting on *Forms 1099-NEC* and *1099-MISC* is required when payments total \$2,000 or more, rather than the long-standing lower amount of \$600. Churches should experience some filing relief in 2027 when there are fewer payments to report for contractors.

Other Important Requirements for Churches

Reporting Group Term Life Insurance

You must include in the income of employees an imputed cost of employer-provided group term life insurance coverage (including death benefits under the Benefits Plan) that exceeds \$50,000. You must also include the imputed cost of all employer-provided group term life insurance on the life of a spouse or dependent if the coverage provided exceeds \$2,000. The imputed cost can be determined according to the following table.

Cost Per \$1,000 of Protection for 1-Month Period	
Age Brackets	Cost
Under 25	5 cents
25–29	6 cents
30–34	8 cents
35–39	9 cents
40–44	10 cents
45–49	15 cents
50–54	23 cents
55–59	43 cents
60–64	66 cents
65–69	\$1.27

● EXAMPLE: Church A pays the premiums on a \$70,000 group term insurance policy on the life of Pastor B with B’s wife as beneficiary. Pastor B is 29 years old. Church A also pays the premium on a \$5,000 group term life insurance policy which covers Pastor B’s wife who is 30 years old. The church would have to report \$19.20 as the imputed cost of the insurance provided to Pastor B and his wife. This amount is computed as follows: (1) For Pastor B, the table shows the cost per month for each \$1,000 of group term life insurance in excess of \$50,000. To compute the cost for Pastor B, take 6 cents x 12 months = 72 cents x 20 (corresponding to \$20,000 of group term life insurance in excess of \$50,000) = \$14.40.

(2) In addition, the cost of the entire \$5,000 of insurance provided to Pastor B's wife would have to be computed. Take 8 cents x 12 months = 96 cents x 5 = \$4.80. Combine this amount with the cost of Pastor B's excess insurance to obtain the taxable amount of \$19.20. Church A should include this amount with wages in Box 1 of *Form W-2*. This amount should also be reported in Box 12 and labeled code C. Any includible amount is subject to income tax as well as Social Security and Medicare withholding for non-minister church employees.

- ❖ **KEY POINT:** All life insurance plans are not "group" life insurance plans. Before the above provisions are applied in computing taxable income for an employee, it should be confirmed that the church is operating a group life insurance plan.

Form I-9

Form I-9 must be used to verify the identity and employment authorization of individuals hired for employment in the U.S. In 2023, U.S. Citizenship and Immigration Services (USCIS) updated the *Form I-9, Employment Eligibility Verification*. USCIS made significant changes to the form and its instructions, including a checkbox to indicate that an employee's *Form I-9* documentation was examined using an authorized alternative procedure from the Department of Homeland Security (DHS). Identity documentation is required to be physically examined by the employer and not collected virtually unless using a DHS-authorized alternative procedure. To utilize an alternate procedure, the church must participate in E-Verify® at [E-Verify.gov](https://www.dhs.gov/e-verify).

Form I-9, Employment Eligibility Verification, with a version date of (Rev. 01/20/25) is available for use beginning January 20, 2025, and must be used. The prior version of *Form I-9* (Rev. 08/01/23) was effective through January 19, 2025.

Form I-9 contains two sections and two supplements:

Sections

- **Section 1** of the form collects, at the time of hire, identifying information about the employee (and preparer or translator if used), and requires the employee to attest to whether the employee is a U.S. citizen, non-citizen national, lawful permanent resident, or non-citizen authorized to work in the U.S.
- **Section 2** of the form collects, within three days of the employee's hire, identifying information about the employer and information regarding the employee's identity and employment authorization. The employee must present original documentation evidencing the employee's identity and employment authorization, which the employer must review. This documentation must be physically examined by the employer unless using an approved DHS procedure. Special procedures instituted during the COVID-19 pandemic have

ended. An employee must be provided with the list of acceptable documents and may choose from the list at their discretion. An employer may not decide which documents must be presented.

Supplements

- **Supplement A**, Preparer and/or Translator Certification for Section 1, is completed when employees have preparers or translators assist them in completing Section 1 of *Form I-9*.
- **Supplement B**, Reverification and Rehire (formerly Section 3), is primarily used to verify the continued employment authorization of the employee. This supplement is completed prior to the date that the employee's employment authorization or employment authorization documentation recorded in either Section 1 or Section 2 of the form expires, if applicable. This supplement may also be used if the employee is rehired within three (3) years of the date of the initial completion of the form and to record a name change.

Employers must maintain *Forms I-9* for as long as an individual works for the employer and for the required retention period after the termination of an individual's employment (either three (3) years after the date of hire or one (1) year after the date employment ended, whichever is later). Also, employers must make their employees' *Forms I-9* available for inspection upon request by officers of the Department of Homeland Security (DHS), the Immigrant and Employee Rights Section (IER) in the U.S. Department of Justice's Civil Rights Division, and the U.S. Department of Labor. An employer's failure to ensure proper completion and retention of *Forms I-9* may subject the employer to civil money penalties, and, in some cases, criminal penalties.

Beginning March 20, 2025, employers who fail to use *Form I-9* (Rev. 01/20/25) may be subject to all applicable penalties under the Immigration and Nationality Act (INA) as enforced by U.S. Immigration and Customs Enforcement (ICE).

Employers do not need to complete the new *Form I-9* (Rev. 01/20/25) for current employees who already have a properly completed *Form I-9* on file, unless reverification applies after March 21, 2026. Unnecessary verification may violate the INA's anti-discrimination provision.

Employers may download the new *Form I-9* (Rev. 01/20/25) from the USCIS website at [USCIS.gov/sites/default/files/document/forms/i-9.pdf](https://uscis.gov/sites/default/files/document/forms/i-9.pdf). For more information, the public can contact the USCIS through one of the resources located at [USCIS.gov/about-us/contact-us](https://uscis.gov/about-us/contact-us) or visit the USCIS I-9 central web page at [USCIS.gov/i-9](https://uscis.gov/i-9).

Annual Certification of Racial Nondiscrimination

Churches and other religious organizations that operate, supervise, or control a private school must file a certificate

of racial nondiscrimination (*Form 5578*) each year with the IRS. The certificate is due by the fifteenth day of the fifth month following the end of the organization's fiscal year. This is May 15 of the following year for organizations that operate on a calendar-year basis. For example, *Form 5578* for 2025 is due May 15, 2026.

A private school is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory, or high schools; and it includes colleges and universities, whether operated as a separate legal entity or an activity of a church.

✦ **KEY POINT:** The term "school" also includes preschools, and this is what makes the reporting requirement relevant for many churches. As many as 25% of all churches operate a preschool program. It is often difficult to determine if a preschool is a "school" or a "day care". It may be advisable to adhere to these requirements even if the program appears to be a day care to protect the church from an adverse consequence from failure to comply.

✦ **KEY POINT:** The instructions to *Form 5578* state: "Every organization that claims exemption from federal income tax under section 501(c)(3) of the *Internal Revenue Code* and that operates, supervises, or controls a private school(s) must file a certification of racial nondiscrimination. If an organization is required to file *Form 990* ... either as a separate return or as part of a group return, the certification must be made on *Schedule E (Form 990 or 990-EZ)* ... rather than on this form."

While *Form 5578* is easy to complete, it is an attestation that the school is compliant with federal nondiscrimination requirements operationally and meets publication requirements. A church official identifies the church and the school and certifies that the school has "satisfied the applicable requirements of sections 4.01 through 4.05 of Revenue Procedure 75-50." This reference is to the following requirements:

1. The school has a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy toward students.
2. The school has a statement of its racially nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.
3. The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its

racially nondiscriminatory policy at least annually in: a newspaper of general circulation; through utilization of the broadcast media; or by displaying a notice of its racially nondiscriminatory policy on its primary publicly accessible internet homepage at all times during its taxable year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage.

✶ **TIP:** Find the IRS template for a notice and other details at ChurchLawAndTax.com.

However, such notice is not required if one or more exceptions apply. These include the following: (1) During the preceding three years, the enrollment consists of students at least 75% of whom are members of the sponsoring church or religious denomination, and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community. (2) The school draws its students from local communities and follows a racially nondiscriminatory policy toward students and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently enrolls students of racial minority groups in meaningful numbers.

4. The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

Filing the certificate of racial nondiscrimination is one of the most commonly ignored federal reporting requirements. Churches that operate a private school (including a preschool), as well as independent schools, may obtain *Form 5578* from IRS.gov. Failure to file *Form 5578* when required may threaten a church's tax-exempt status.

✦ **KEY POINT:** Some independent religious schools that are not operated or controlled by a church or other religious organization are required to file *Form 990* with the IRS each year. Schools that are required to file *Form 990* make their annual certifications of racial nondiscrimination through those filings.

Charitable Contribution Substantiation Rules

For donors claiming a deduction for their charitable contributions, several important rules apply to the substantiation of charitable contributions, including the following:

Cash Contributions. All cash contributions, regardless of amount, must be substantiated by either a bank record (such as a cancelled check or clear notation on a bank statement) or a written communication from the church showing the name of the church, the date of the contribution, and the amount of the contribution. The recordkeeping requirements **may not be satisfied**

by maintaining other written records. As noted below, additional substantiation requirements apply to contributions (of cash or property) of \$250 or more, and these must be satisfied as well.

Substantiation of Contributions of \$250 or More. Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they receive a written acknowledgment from the church containing the following information:

- Name of the church.
- Name of the donor. (An SSN is not required.)
- Date of the contribution.
- Amount of any cash contribution.
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property. No value should be stated.
- The receipt must contain one of the following: (1) a statement that no goods or services were provided by the church in return for the contribution; (2) a statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits; or (3) a description and good faith estimate of the value of goods or services other than intangible religious benefits that the church provided in return for the contribution.
- The church may either provide separate acknowledgments for every single contribution of \$250 or more or one acknowledgment to substantiate several single contributions of \$250 or more. Separate contributions are not aggregated for purposes of measuring the \$250 threshold unless they are related to a single transaction.
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates: (1) the date the donor files a tax return claiming a deduction for the contribution, or (2) the due date (including extensions) for filing the return. To assist donors with complying with this requirement, it is recommended that the acknowledgments be dated by the church when they are issued.

Gifts of Property. Several additional rules apply to the substantiation of contributions of non-cash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500, but not over \$5,000, for a non-cash charitable contribution must retain certain records and complete Section A of IRS *Form 8283* and enclose the completed form with the *Form 1040* on which the charitable contribution is claimed.

Special rules apply to donations of cars, boats, and planes valued by the donor at more than \$500. The church must provide the donor with a written acknowledgment containing certain information. These requirements may be fulfilled by filing *Form 1098-C* with the IRS containing required information about the donation and providing *Copy B* to the donor. See the instructions for *Form 1098-C* for more information. Failure to file *Form 1098-C* can result in penalties assessed to the church and a loss of the donation deduction by the donor.

Generally, you must furnish *Copies B* and *C* of this form to the donor no later than 30 days after the date of sale if Box 4a is checked or 30 days after the date of the contribution if Box 5a or 5b is checked. If Box 7 is checked, do not file *Copy A* with the IRS and do not furnish *Copy B* to the donor. You may furnish *Copy C* to the donor. The donor is required to obtain *Copy C* or a similar acknowledgment by the earlier of the due date (including extensions) of the donor's income tax return for the year of the contribution or the date that return is filed. *Form 1098-C* is not provided to the donor at the end of the tax year. All *Forms 1098-C* issued during a tax year are provided to the IRS by February 28 of the next tax year. Electronic filing is required for the form if 10 or more of the *Forms W-2/1099* series are filed by the church. However, if the electronic filing rules do not apply to the church, this form may be filed using a black-and-white *Copy A* with *Form 1096* that is printed from the IRS website.

❖ **KEY POINT:** Most donors believe there is a law requiring churches and charities to issue contribution receipts by January 31 each year for the prior year. This is not true. Rather, the law requires donors to have the correct acknowledgments to claim the charitable contribution deduction, but does not place any requirements on the church/charity to issue them. The issuance of acknowledgments meeting the above standards is a courtesy to the donor. However, the issuance of *Form 1098-C* is a legal requirement of the church/charity and does include penalties for non-compliance.

For contributions of non-cash property valued at more than \$5,000 (\$10,000 for privately held stock), a donor must obtain a qualified appraisal of the donated property from a qualified appraiser and complete Section B of *Form 8283*. The form includes sections to be signed by the appraiser and a church representative. The completed *Form 8283* is then included with the *Form 1040* on which the charitable contribution deduction is claimed. The appraisal must be attached to *Form 1040* for contributions of property (other than inventory and publicly traded securities) in excess of \$500,000. A church's completion of *Form 8283* for a donor does not constitute a written

acknowledgment of the donation. The church must issue a qualifying written acknowledgment in addition to completing the necessary part of *Form 8283* for the donor to be able to claim a donation.

- ✱ **KEY POINT:** The IRS considers contributions of cryptocurrency to be contributions of property. Therefore, any documentation requirements applicable to non-cash contributions are applicable to the donation of cryptocurrency.

If a church must sign *Form 8283* related to a non-cash donation of \$5,000 or greater, it should maintain a copy of the signed *Form 8283*. If the property is disposed of within three years of the date of the gift, the church must file *Form 8282* reporting the disposal to the IRS and, in certain circumstances, provide the original donor with a copy of the *Form 8282*. *Form 8282* must be filed with the IRS within 125 days after the disposition.

Affordable Care Act (ACA) Reporting

For certain employers providing health care fringe benefit plans, additional reporting is required under the ACA.

The reporting requirements consist of the following forms:

- **Forms 1094-B and 1095-B.** Providers of minimum essential coverage (MEC) are required to file *Forms 1094-B* and *1095-B* to report certain information to the IRS and to employees about individuals who are covered by MEC. For most insured plans, the health insurance issuers and carriers must file the form. For self-insured plans, the employer has the filing requirement. This can include an HRA operated by the employer. The legal filing requirement for furnishing forms to employees is January 31 following the year of coverage. However, the IRS has provided for a permanent and automatic extension of time for providing the statements to individuals overriding the legal filing date. For coverage in 2025, forms are due to employees by March 2, 2026.

The forms must be filed with the IRS by March 2, 2026 (March 31, 2026, if filed electronically).
- **Forms 1094-C and 1095-C.** Applicable Large Employers (ALEs), generally employers with 50 or more full-time employees (including full-time equivalent employees) in the previous year, must file one or more *Forms 1094-C* (including a *Form 1094-C* designated as the Authoritative Transmittal, whether or not filing multiple *Forms 1094-C*), and must file a *Form 1095-C* for each employee who was a full-time employee of the employer for any month of the calendar year. Generally, the employer is required to

furnish a copy of *Form 1095-C* (or a substitute form) to the employee.

The legal filing requirement for furnishing forms to employees is January 31 following the year of coverage. However, the IRS has provided for a permanent and automatic extension of time for providing the statements to individuals overriding the legal filing date. For coverage in 2025, forms are due to employees by March 2, 2026.

The forms are required to be filed with the IRS by March 2, 2026 (March 31, 2026, if filed electronically). The information reported on *Forms 1094-C* and *1095-C* is used to determine whether an employer owes a payment under the employer-shared responsibility provisions of section 4980H and is also used in determining the eligibility of employees for the premium tax credit.

See the instructions to these forms on *IRS.gov* for more information.

- ✱ **KEY POINT:** Churches with fewer than 50 full-time employees, and an insured group health plan, generally have no reporting obligation. They are not required to file *Forms 1094-C* and *1095-C* since they have fewer than 50 employees, and their group plan insurer files *Forms 1094-B* and *1095-B*.
- ✱ **KEY POINT:** These forms are included in the mandatory e-filing requirement that is applicable if the church files 10 or more of a combination of any type of reporting form.

Foreign Bank Account Reporting – FinCEN Form 114

Many churches have extensive foreign mission operations across the globe. It is common for churches to establish project accounts to handle the receipt of funds related to a foreign project. These bank accounts may be held in the name of the church or in the name of a foreign non-governmental organization.

These project accounts can trigger the U.S. filing requirement for the Financial Crimes Enforcement Network (FinCEN) *Form 114*.

This return is required of all U.S. persons (this includes churches) who have a financial interest in, or signature authority over, foreign financial accounts if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year. This is a daily test and does not require funds to stay in an account for a certain period. Therefore, churches that hold accounts in their own name or in the name of a foreign national acting on behalf of the church may have a filing requirement.

Additionally, any U.S. person who has signature authority on the account has a separate filing requirement. Therefore, it is possible that both the church and any officer, director, or employee who may sign on the account may have a filing requirement.

FinCEN *Form 114* must be filed electronically through FinCEN's BSA E-filing system and is due by April 15 of the year following the calendar year being reported. There is an automatic extension to October 15 each year.

Non-willful failure-to-file penalties can be up to \$10,000 per form, and willful failure-to-file penalties are the higher of \$100,000 or 50% of the account's maximum value at the time of violation. Due to the punitive nature of the penalties for failure to file, churches should always take care to understand the application of these rules when working with foreign mission projects.

Helpful Numbers and Resources

1-800-TAX-FORM (1-800-829-3676)

Request IRS forms.

IRS.gov

Visit the IRS homepage.

MyGuideStone.org

Access GuideStone's digital version of this guide.

ChurchLawandTax.com

A Church Law & Tax website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management.

ChurchLawandTaxStore.com

Church Law & Tax's online store with church management resources to keep your church safe, legal, and financially sound.

Church & Clergy Tax Guide

Richard R. Hammar's comprehensive tax reference, now available online and updated throughout the year for Church Law & Tax's Advantage Members. GuideStone members can access our version of this resource at no cost at *MyGuideStone.org*.

Church Compensation, Second Edition (with 2025 Updates)

CPA Elaine Sommerville guides you through every aspect of employment compensation in easy-to-understand language.