A Supplement to the 2023 Clergy Tax Return Preparation Guide for 2022 Returns

For the 2022 tax year, the Church Pension Group (CPG) is providing the 2023 Clergy Tax Return Preparation Guide for 2022 Returns (Tax Guide) and the Federal Reporting Requirements guide (FRR) as references to help clergy, treasurers and bookkeepers, and tax preparers better understand clergy taxes. These guides are available on CPG’s Tax Publications webpage.

The supplement complements the guides and appears below. The supplement is presented in two sections. First, a section on tax highlights addresses recent tax changes. Second, a section in question-and-answer format covers key tax issues and how certain information in the guides applies specifically to clergy of The Episcopal Church.

Note: If you have questions about clergy federal income taxes that are not covered here, please call CPG’s Tax Hotline:

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Please note that the service these individuals will provide is of an informational nature. It should not be viewed as tax, legal, financial, or other advice. You must contact your tax advisor for assistance in preparing your tax returns or for other tax advice.
SECURE 2.0 Signed into Law

On December 23, 2022, President Biden signed into law the SECURE 2.0 Act as part of the Consolidated Appropriations Act, 2023. The attached article from Fidelity Investments, the record keeper of our defined contribution plans, explains some of the provisions that may affect you. Be sure to talk with your financial planner and tax professional to understand your situation.

Please be aware that the defined contribution plans sponsored by The Church Pension Fund ("CPF") do not currently offer a Roth account option. CPF plans to offer a Roth account option by January 1, 2024.

In addition, the wage limit included in the provision requiring catch-up contributions be made to Roth accounts, as discussed in the following article, is based on FICA wages. As such, we understand that this particular provision will not apply to clergy. We are awaiting further guidance on this issue.

You can find more details in this Fidelity article: fidelity.com/learning-center/personal-finance/secure-act-2.

SECURE 2.0: Rethinking retirement savings

From RMDs to student debt, the new law has something for everyone.

Key takeaways

• The age to start taking RMDs increases to age 73 in 2023 and to 75 in 2033.
• The penalty for failing to take an RMD will decrease to 25% of the RMD amount, from 50% currently, and 10% if corrected in a timely manner for IRAs.
• Starting in 2024, RMDs will no longer be required from Roth accounts in employer retirement plans.
• Catch-up contributions will increase in 2025 for 401(k), 403(b), governmental plans, and IRA account holders.
• Defined contribution retirement plans will be able to add an emergency savings account associated with a Roth account.

The SECURE 2.0 Act is now law. The legislation provides a slate of changes that could help strengthen the retirement system—and Americans’ financial readiness for retirement.

The law builds on earlier legislation that increased the age at which retirees must take required minimum distributions (RMDs) and allowed workplace saving plans to offer annuities, capping years of discussions aimed at bolstering retirement savings through employer plans and IRAs.

While SECURE 2.0 contains dozens of provisions, the highlights include increasing the age at which retirees must begin taking RMDs from IRA and 401(k) accounts, and changes to the size of catch-up contributions for older workers with workplace plans. Additional changes are meant to help younger people continue saving while paying off student debt, to make it easier to move accounts from employer to employer, and to enable people to save for emergencies within retirement accounts.

For people in or near retirement

1. Big changes to RMDs. The age at which owners of retirement accounts must start taking RMDs will increase to 73, starting January 1, 2023. The current age to begin taking RMDs is 72, so individuals will have an additional year to delay taking a mandatory withdrawal of deferred savings from their retirement accounts.
Two important things to think about: If you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled. If you’re turning 72 in 2023 and have already scheduled your withdrawal, you may want to consider updating your withdrawal plan. Good to know: SECURE 2.0 also pushes the age at which RMDs must start to 75 starting in 2033.

Starting in 2023, the steep penalty for failing to take an RMD will decrease to 25% of the RMD amount not taken, from 50% currently. The penalty will be reduced to 10% for IRA owners if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return in a timely manner.

Additionally, Roth accounts in employer retirement plans will be exempt from the RMD requirements starting in 2024.

And beginning immediately, for in-plan annuity payments that exceed the participant’s RMD amount, the excess annuity payment can be applied to the year’s RMD.

### Turning 72 in 2023?

Consider when to take your first RMD: Either by December 31, 2024, or delay until no later than April 1, 2025. Remember, if you delay your first RMD to April 1, 2025, you’ll need to take 2 RMDs in 1 tax year: Your first by April 1, 2025, which satisfies your required withdrawal for 2024, and your second by December 31, 2025, which satisfies your required withdrawal for 2025.

Review and update scheduled withdrawals from your Fidelity account(s) here: fidelity.com/autowithd

### 2. Higher catch-up contributions.

Starting January 1, 2025, individuals ages 60 through 63 years old will be able to make catch-up contributions up to $10,000 annually to a workplace plan, and that amount will be indexed to inflation. (The catch-up amount for people age 50 and older in 2023 is currently $7,500.)

One caveat: If you earn more than $145,000 in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

IRAs currently have a $1,000 catch-up contribution limit for people age 50 and over. Starting in 2024, that limit will be indexed to inflation, meaning it could increase every year, based on federally determined cost-of-living increases.

### 3. Matching for Roth accounts.

Employers will be able to provide employees the option of receiving vested matching contributions to Roth accounts (although it may take time for plan providers to offer this and for payroll systems to be updated). Previously, matching in employer-sponsored plans were made on a pre-tax basis. Contributions to a Roth retirement plan are made after-tax, after which earnings can grow tax-free.

Important to know: Unlike Roth IRAs, RMDs from an employer-sponsored plan are required for Roth accounts until tax year 2024.

### 4. Qualified charitable distributions (QCDs).

Beginning in 2023, people who are age 70½ and older may elect as part of their QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD.
This amount counts toward the annual RMD, if applicable. Note, for gifts to count, they must come directly from your IRA by the end of the calendar year. QCDs cannot be made to all charities.

Read more in Viewpoints about the basics of QCDs.

5. **Other changes for annuities.** Qualified longevity annuity contracts (QLACs) are getting a boost. QLACs are deferred income annuities purchased with retirement funds typically held in an IRA or 401(k) that begin payments on or before age 85. The dollar limitation for premiums increases to $200,000 from $145,000 starting January 1, 2023. The law also eliminates a previous requirement that limited premiums to 25% of an individual’s retirement account balance.

6. **Automatic enrollment and automatic plan portability.** The legislation requires businesses adopting new 401(k) and 403(b) plans to automatically enroll eligible employees, starting at a contribution rate of at least 3%, starting in 2025. It also permits retirement plan service providers to offer plan sponsors automatic portability services, transferring an employee’s low balance retirement accounts to a new plan when they change jobs. The change could be especially useful for lower-balance savers who typically cash out their retirement plans when they leave jobs, rather than continue saving in another eligible retirement plan.

7. **Emergency savings.** Defined contribution retirement plans would be able to add an emergency savings account that is a designated Roth account eligible to accept participant contributions for non-highly compensated employees starting in 2024. Contributions would be limited to $2,500 annually (or lower, as set by the employer) and the first 4 withdrawals in a year would be tax- and penalty-free. Depending on plan rules, contributions may be eligible for an employer match. In addition to giving participants penalty-free access to funds, an emergency savings fund could encourage plan participants to save for short-term and unexpected expenses.

8. **Student loan debt.** Starting in 2024, employers will be able to “match” employee student loan payments with matching payments to a retirement account, giving workers an extra incentive to save while paying off educational loans.

9. **529 Plans.** After 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. Rollovers cannot exceed the aggregate before the 5-year period ending on the date of the distribution. The rollover is treated as a contribution towards the annual Roth IRA contribution limit.

While SECURE 2.0 provides increased opportunities to save for retirement, everyone’s financial situation is different. As always, consult your financial advisor or tax professional to understand how SECURE 2.0 changes apply to you.

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**Tax Highlights**

On June 9, 2022, the Internal Revenue Service (IRS) announced an increase in the optional standard mileage rate for the final 6 months of 2022. Taxpayers may use the optional rate of 62.5 cents per mile, up 4 cents from the rate effective for the first half of the year. The increase was designed to recognize recent gasoline price increases. The rate of 14 cents per mile for charitable organizations remains unchanged throughout 2022 as it is set by statute. See IRS News Release IR-2022-124 for more information.

Hurricane Ian victims in North Carolina, South Carolina, and Florida qualify for tax relief and have until February 15, 2023, to file various federal individual and business tax returns and make tax payments. See IRS Notices IR-2022-173 and 168 for additional information.

The Inflation Reduction Act of 2022 enacted a range of tax provisions that will affect both individuals and businesses and will take effect over the next 10 years. For information on changes that will affect the 2023 tax year, see IRS Notice IR-2022-182.

The IRS has created an FAQ designed for employers to review changes to tax laws related to the coronavirus pandemic: COVID-19-Related Tax Credits: Basic FAQs.

The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 is now law. Some of the most important changes that could have a significant impact on you are the following:

- Withdrawals of up to $10,000 from Code Section 529 plans (tax-advantaged higher education savings accounts) to repay student loans are now permitted. The SECURE Act makes this change retroactive to distributions made after December 31, 2018.
- Parents can withdraw up to $5,000 from their 403(b) or similar workplace savings plan without paying the early penalty tax for taking a distribution before age 59½.

We strongly recommended that you review your financial and estate plans and IRA beneficiary elections with your financial professional.

The CARES Act (Coronavirus Aid, Relief, and Economic Security Act) was signed into law on March 27, 2020. Most of its provisions affected returns only for the 2020 and 2021 tax years. However, the following provisions still affect returns for the 2022 tax year:

1. **Deferral of the payment of the employer’s share of Social Security taxes**—Social Security taxes due from March 27, 2020, through December 31, 2020, can be deferred until 2021 and 2022. Half of the deferred taxes were due December 31, 2021, with the remaining half due December 31, 2022.

2. **Charity**—In 2021, an individual could deduct a small amount of charitable contributions without itemizing. For 2022, the rules revert to the previous provisions, which require itemization and the limit of 50% of adjusted gross income (AGI) for cash contributions and 30% of AGI for most noncash contributions.
Questions & Answers

Eligibility

Q1. For tax purposes, who is considered a minister in The Episcopal Church?
A1. The IRS has its own criteria for determining who is a minister for tax purposes. See IRS Publication 517. In The Episcopal Church, only bishops, priests, and deacons (ordained ministers, as opposed to lay ministers) meet the criteria for the IRS designation of “minister.” See the Tax Guide and FRR for an explanation of the importance of understanding whether you qualify as a minister for tax purposes.

Q2. What types of organizations qualify as Church organizations?
A2. • Church organizations include Episcopal parishes and missions, dioceses, schools, and institutions associated with The Episcopal Church.
• The approval of an Extension of Ministry under The Church Pension Fund Clergy Pension Plan does not automatically qualify a clergyperson for clergy tax treatment. Also, pay received for work performed for organizations not associated with the Church may not qualify as the “exercise of ministry.” Work performed directly for the Church is considered “exercise of ministry,” no matter the nature of the work.
• Generally, work for nonchurch organizations does not qualify for the housing allowance, unless that work is primarily sacerdotal.
• Compensation paid to a clergyperson from nonchurch organizations is usually subject to income tax and employment (Federal Insurance Contributions Act, or FICA) tax withholding.

Basics of Clergy Taxation

Q3. What are the key federal tax provisions that apply to clergy compensation?
A3. The key provisions include the following:
• Self-employed status for Social Security and Medicare tax purposes—Clergy are not eligible to have Federal Insurance Contributions Act (FICA) taxes withheld from their church compensation. In lieu of FICA taxes, clergy pay self-employment tax, also known as Self-Employment Contributions Act tax (SECA). Reimbursements from an employer of SECA are taxable as wages and are assessable under The Church Pension Fund Clergy Pension Plan. Note, however, that even though clergy pay SECA tax, most ministers are considered employees and should receive a federal Form W-2 from their employer.
• Exemption of federal and state wages from income tax withholding—Clergy must pay quarterly estimated taxes or request that their employer voluntarily withhold income taxes. Clergy can request that an additional amount of income tax be withheld to cover their self-employment tax by using Form W-4. The additional amount will be reported as federal income tax.
• Eligibility for the housing allowance exclusion from federal income tax—A clergyperson can have a portion of their salary declared as a housing allowance and thereby exempt the eligible amount from federal income tax.

Q4. How does the self-employment tax (SECA) differ from federal and state income tax?
A4. Three federal taxes are paid on wages and self-employment income: income tax, Social Security tax, and Medicare tax. Social Security and Medicare taxes are collected under one of two systems:
• Under the Self-Employment Contributions Act (SECA), the self-employed person—the clergyperson, in our case—pays all the taxes.
• Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the Social Security and Medicare taxes. Each state has its own local and state tax program.

Q5. Should I prepare my own taxes?
A5. No. Clergy tax issues are highly complex, and not all tax software is capable of producing accurate results.

Clergy Housing Allowance

Q6. How can I determine my housing allowance under Internal Revenue Code Section 107?
A6. To establish a Section 107 housing allowance, your vestry or other Church governing body must adopt a housing allowance resolution at the end of each calendar year for the following year. A church cannot designate a housing allowance retroactively. Please refer to the FRR for additional information.

The amount of the housing allowance exclusion is limited to the lowest of:
1. the amount designated by the governing body,
2. the actual amount spent on housing, or
3. the fair rental value of the home, furnished, plus the cost of actual utilities. A clergyperson can consult with a realtor to obtain a written appraisal of the fair rental value of their furnished home.

Clergy should request that their housing allowance be the lower of items 2 or 3 above, not to exceed their total compensation.

Only expenses incurred for the minister’s primary residence are eligible for the housing allowance exclusion. Please be sure to consult your tax preparer regarding your housing allowance.

Q7. How can I ensure that my expenses at a long-term care facility are eligible for the housing allowance exclusion?
A7. If you are considering moving to a long-term care facility, make sure that it will give you a breakdown each year of the portions of your payments that represent the cost of housing, medical expenses, and other items. It is necessary to have such information to take proper advantage of your housing allowance and medical expense deductions on your income tax returns.

Note: The IRS has ruled that the lump-sum entrance fee paid by a retired minister to gain admission to a long-term care facility can be treated as a housing expense only in the year it is actually paid and cannot be prorated over several years.

Q8. How do I report my housing allowance when I live “rent-free” in church-provided housing?
A8. Clergy who live “rent-free” in church-provided housing should have a portion of their cash compensation designated by the vestry or other church governing body as a parsonage or rectory allowance for expenses they pay, such as utilities, repairs, and furnishings. This exclusion works like the housing allowance for clergy who own or rent their homes. The portion of the fair rental value test that applies is the portion not provided by the church. Therefore, if the church provides the house and pays the utilities, the value added for furnishings is the only relevant amount to be used in determining the amount eligible for this allowance.

Note: Clergy who live “rent-free” in church-provided housing that is provided as compensation for ministerial services do not include the annual fair rental value of church-provided housing as income in computing federal income taxes and therefore do not pay federal income tax on that value. The annual fair rental value is not “deducted” from the income.
clergy's income as housing allowance, nor is it reported as additional taxable compensation on Form W-2. However, clergy do pay the Self-Employment Contributions Act (SECA) tax on the fair rental value of the housing provided.

Note: Clergy who live “rent-free” in church-provided housing will not be allowed to claim a housing allowance for any other real property that they own or rent while living “rent-free” in church-provided housing. This is because the “rent-free” church-provided housing will be considered their primary residence for tax purposes.

Q9. How does the housing allowance exclusion work in retirement?
A9. Under Section 107 of the Internal Revenue Code, clergy pension distributions can also be declared as a housing allowance. (This provision does not apply to the clergyperson’s surviving spouse.)

CPF Form B immediately follows this supplement. It explains how The Church Pension Fund (CPF) declares the full amount of all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy as a housing allowance, and how to apply it for tax purposes. We recommend that you place a copy of CPF Form B in your current tax file and provide it to your tax preparer.

Q10. Who designates the housing allowance in nonstandard work situations?
A10. The governing authority of the employing entity should designate the housing allowance. Remember that work performed for a nonchurch employer will not qualify for the housing allowance exclusion, unless the clergyperson is working under an approved Extension of Ministry and the work performed is primarily sacerdotal.

Q11. How does the housing allowance exclusion work when changing jobs during the calendar year?
A11. The clergyperson should request a new housing allowance designation from the new employer, based on the housing cost factors that will apply during the remaining part of the year. The designation must be made before the start of new employment as it will be effective only prospectively.

Q12. What expenses qualify for the housing allowance exclusion?
A12. The IRS has not issued a definitive list of items that qualify for the housing allowance exclusion. You and your tax preparer can refer to IRS Publication 517 for information. In addition, CPF Form B (attached at the end of this document) may assist in determining the total actual expenses that relate to renting or providing your primary home.

Q13. How can I find a tax preparer?
A13. Here are some tips to help you find a competent professional:

• Ask your diocesan finance officer for recommendations.
• Ask your clergy colleagues (not just Episcopal).
• Use a tax preparer who is familiar with the rules that apply to clergy.
• Ask local tax professionals whether they have worked with ministers and, if so, 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 and Medicare tax purposes. Anyone familiar with ministers’ taxes will know that ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Or ask a tax professional if a minister’s church salary is subject to required income tax withholding.
• Often, tax preparers can readily familiarize themselves with clergy tax treatment by reviewing the Tax Guide, calling CPG’s Tax Hotline (listed on a previous page), and/or referring to CPF Form B.

**Q14. How can I change my withholding amount when receiving my pension benefit in retirement?**

**A14.** Your monthly earnings statement provided by Northern Trust includes a section where you can enter an adjustment to your federal income tax withholding. You can also submit federal Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments. This form is available on CPG’s Tax Resources webpage. See A.17 for information on how to complete the Form W-4P.

**Q15. Where is the Substitute Form W-4P, and why does the new Form W-4P look different from what I am used to?**

**A15.** The IRS created a new Form W-4P for use beginning in 2022. CPF continued to use the Substitute Form W-4P in 2022 but beginning January 1, 2023, will require the new Form W-4P for clergy who retire or who wish to change the withholding amounts from their pension payments after that date.

**Q16. Do I have to fill out the new Form W-4P if I’m not changing my federal withholding elections from my pension payments?**

**A16.** No. The Form W-4P that CPF currently has on file for you will remain in effect unless and until you wish to change your withholding amount.

**Q17. How do I complete the Forms W-4 (active), or W-4P and W-4R (retired)?**

**A17.**

- **Active clergy** should complete an Employee’s Withholding Certificate, federal Form W-4, to request withholding. To have enough tax withheld to cover the Self-Employment Contributions Act (SECA) tax, clergy should add the amount they want withheld per pay period on Line 4(c) of the form. See A.18 for information on how to calculate the SECA tax.

- Federal income tax withholding is optional on periodic pension distributions from The Church Pension Fund Clergy Pension Plan and the International Clergy Pension Plan (ICPP).

- If a clergyperson does not complete a Form W-4P, no federal income taxes will be withheld from periodic payments.

- Clergy retiring on or after January 1, 2023, who wish to voluntarily elect federal income tax withholding from their pension payments from The Church Pension Fund must complete a Form W-4P, Withholding Certificate for Periodic Pension and Annuity Payments.
  - To elect voluntary withholding, complete Form W-4P by completing Steps 2, 3, and 4, where applicable.
  - Alternatively, if you wish to have a fixed amount withheld from each pension payment, enter the amount to withhold on Step 4(c) and write “Fixed Amount To Be Withheld” in the space below Step 4(c). If you do not write “Fixed Amount To Be Withheld,” the amount entered on Step 4(c) will be treated as an addition to the withholding calculated in Steps 2, 3, and 4.
  - Please refer to the Church Pension Fund instructions for Form W-4P for additional information.

- If your RSVP withdrawal is eligible for the housing allowance exclusion, be sure to tell Fidelity that you are clergy when requesting a withdrawal so that the taxable amount of the distribution will be 0 and there will be no withholding. Otherwise, Fidelity will withhold 20% of the amount of the withdrawal.
Q18. How do I calculate the Self-Employment Contributions Act (SECA) tax when living in a rectory or when living in clergy-provided housing with a designated housing allowance?

A18. Determining your SECA tax liability can be complicated, and we recommend that you use the services of a qualified tax professional who understands clergy tax issues. In general, all income earned from ministerial services is subject to SECA tax. The tax is computed on Schedule SE (Form 1040).

Net earnings from ministerial services are reported on line 2 of Schedule SE and include the following:

- earnings reported in box 1, Form W-2, plus
- any designated housing allowance (referred to in IRS literature as a Rental Allowance), plus
- the fair rental value of a rectory or other church-provided housing, including the cost of utilities if paid by the employer, plus
- net ministerial income reported on Schedule C, if any, less
- allowable business deductions not already deducted on Schedule C.

See IRS Publication 517 for details.

Q19. How can I set up an accountable expense reimbursement plan?

A19. The Tax Cuts and Jobs Act eliminated a taxpayer’s ability to deduct unreimbursed business expenses. Therefore, clergy should ensure that their employer has established an accountable expense reimbursement plan. See the FRR for more information.

Special Tax-Reporting Issues

Q20. How should I report business expenses and/or declare a housing allowance for interim cures in out-of-town locations?

A20. This situation presents unique issues, especially for retirees who are receiving a pension. The differences in tax treatment depend on the length of the cure, and taxpayers are advised to consider them carefully:

- **Cures of one year or less** — If the interim job is for a set duration of one year or less, the housing at the temporary location is generally treated as a business expense that can be provided by or reimbursed by the employing church tax-free to the clergyperson. Also, the clergyperson can continue to apply their pension income toward the housing allowance for the permanent residence’s expenses. Travel expenses to and from the permanent residence and the interim job location are also treated as business expenses.

- **Cures of longer than one year (or uncertain period of time)** — If the interim job is projected to last for more than a year or its term is uncertain (whether or not it turns out to be for less than a year is irrelevant), the clergyperson has generally been deemed to have moved the principal residence to the interim location. Therefore, the reimbursement of expenses relating to the temporary housing at the interim location is taxable for Self-Employed Contributions Act/Self Employment Tax (SECA/SET) purposes, and the clergyperson will not be able to claim a housing allowance as it relates to the housing expenses associated with their permanent residence.

Q21. What should I understand about taxation of moving expenses?

A21. Under the Tax Cut and Jobs Act, for 2018 through 2025, qualified moving expenses can no longer be reimbursed tax-free or deducted on personal tax returns.
• Any direct payment of moving expenses or reimbursement to the clergyperson must be treated as taxable compensation and included as salary on Form W-2.
• In addition, these amounts are assessable under The Church Pension Fund Clergy Pension Plan.
• Costs associated with moving your home furnishings can be included as part of your actual expenses incurred when calculating your housing allowance exclusion.

Q22. What rules apply to contributions to and withdrawals from The Episcopal Church Retirement Savings Plan (RSVP)?

A22. The RSVP is a Code Section 403(b) defined contribution plan that may be funded by an individual with earnings received from services provided to the Church and/or employer contributions. Contributions by the clergyperson can be made only from earnings that are reported as taxable compensation (i.e., earnings that have not been applied toward the housing allowance).

• For 2022, the maximum combined contribution (i.e., employer contributions and employee salary deferrals) was the lesser of 100% of taxable compensation or $61,000 ($67,500 for those ages 50 or older). For 2023, these amounts increase to $66,000 (or $73,500 for those ages 50 or older).
• The maximum employee pretax salary deferral for 2022 was the lesser of 100% of taxable compensation or $20,500 ($27,000 for those ages 50 or older). For 2023, these amounts will be $22,500 ($30,000 for those ages 50 or older). If contributions made to a Section 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a Section 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. See IRS Publication 571 for details.
• Pension payments and withdrawals from the RSVP, if from past ministerial services and not from rollovers from accounts funded by payments from secular services, are eligible to be excluded from taxable income as housing allowance.
• Before you make any withdrawals (including required minimum distributions) from the RSVP, be sure to contact Fidelity to inform them that you are a member of the clergy and are eligible to take the distribution as a clergy housing allowance. Distributions from the RSVP are eligible to be applied toward your declared housing allowance, if requested at the time of withdrawal.

Q23. I will turn 70 this year. What should I know about taking distributions from The Episcopal Church Retirement Savings Plan (RSVP)?

A23. The SECURE Act has increased the Required Minimum Distribution (RMD) age from age 70½ to 72. This change applies to anyone who will attain age 70½ on or after January 1, 2020. This means that anyone who attained age 70½ prior to December 31, 2019, will need to continue to take RMDs in 2023. In addition, CPF requires that all RSVP participants begin to receive their RMD by April 1 following the year in which the clergyperson reaches age 72, regardless of whether their work status is active or retired.

Note: If you are actively employed by an Episcopal employer after age 70½, you are eligible to continue making pretax contributions to the RSVP from current taxable earnings through the duration of your employment.
Q24. Is the Resettlement Benefit payable to eligible clergy under The Church Pension Fund Clergy Pension Plan taxable?
A24. If the Resettlement Benefit is distributed to the clergyperson, it is a taxable benefit. To delay paying tax on the Resettlement Benefit, you can make a taxfree rollover of the Resettlement Benefit to The Episcopal Church Retirement Savings Plan (RSVP) or another tax- deferred savings vehicle. See A.17 for distribution from the RSVP as a declared housing allowance.

Q25. I received a gift from my parish at retirement. Is it taxable?
A25. Many clergy receive retirement gifts. The tax treatment generally works as follows:

- Gifts provided by the employer are taxable to the clergyperson and must be reported on Form W-2 as wages and are assessable wages for The Church Pension Fund Clergy Pension Plan.
- Gifts funded by individuals directly to the clergyperson or collected by the church are nondeductible personal gifts. These types of gifts are not taxable to the clergyperson, are not reported on Form W-2 as wages, cannot be treated as tax-deductible by the giver, and are not assessable for pension purposes.

Q26. I am Medicare-eligible and recently returned to work after retirement. As a result, am I entitled to medical coverage as an active employee?
A26. When a clergyperson is Medicare-eligible and working, they may legally be required to be on the employer’s active health plan. For more information, you may want to contact your diocese or The Episcopal Church Medical Trust.

Q27. Due to my conscientious objection to public insurance programs, I would like to opt out of Social Security. For the self-employment tax, is it permissible for me to take such an exemption?
A27. Some denominations allow their clergy to opt out of Social Security as a conscientious objection to the receipt of social insurance. The Episcopal Church does not support this option on theological grounds. As a result, some Episcopal ministers have opted out of Social Security without realizing that they do not qualify for the exemption. It should be noted that, when signing federal Form 4361, a minister must attest to its accuracy under penalty of perjury.

A minister’s opposition must be to accepting benefits under Social Security (or any other public insurance program). Economic considerations, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

Note: A decision to opt out of Social Security is irrevocable. Clergy who opt out of Social Security, especially those who have vested benefits with Social Security from previous employment outside the Church, may be subject to the windfall elimination provision. For more information, refer to IRS Publication 963.

Q28. Why is my compensation reported to the Social Security Administration (SSA) different from the amount reported as compensation for pension assessment?
A28. Compensation reported to SSA comes from Schedule SE filed with your annual tax return, Form 1040. Compensation reported for pension assessments comes from the Change in Compensation Form from CPF. Assessable compensation includes contributions to the RSVP, but compensation reported to SSA does not. Other adjustments are made to the amount you report on Schedule SE. We advise you to check your SSA record and compare it to what is reported on your tax return, Schedule SE.
Q29. For how long must I retain my tax return and supporting records?

A29. You should retain copies of your tax returns for your lifetime. Supporting documents can be destroyed after seven years.
ACKNOWLEDGEMENTS

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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 book 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.
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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 2022 forms since the final forms had not been released by the IRS as of the date of publication.

How to use this guide

This book contains the basic information you need to complete your 2022 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—Federal Reporting...
Requirements for Churches—helps churches comply with their federal tax reporting requirements.

This guide is divided into the following sections:

Part 1: Introduction—This section reviews tax highlights for 2022 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: 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.

Federal Reporting Requirements for Churches—This resource provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

Tax highlights for 2022

The Inflation Reduction Act of 2022 ("IRA")

1. Improve affordability of health insurance for consumers
   The Inflation Reduction Act extends through 2025 changes made by the American Rescue Plan Act of 2021.

2. Clean vehicle credit
   The Inflation Reduction Act modifies the tax credit for plug-in electric vehicles, allowing certain clean vehicles to qualify and eliminating the current per manufacturer limit. The maximum credit per vehicle is $7,500. Clean vehicles include plug-in electric vehicles with a battery capacity of at least 7 kilowatt hours and fuel cell vehicles.

3. Residential clean energy credit
   The Inflation Reduction Act extends the credit through December 31, 2034, restoring the 30% credit rate through 2032, and then reducing the credit rate to 26% in 2033 and 22% in 2034.
4. **Deduction for state and local taxes**

In the past, an itemized deduction of state and local income, sales, and property taxes was limited to a combined total deduction of $10,000 ($5,000 if married filing separately). The expiration date for this provision remains at 2025 under the Inflation Reduction Act, as under prior law. And, as an individual, your deduction of state and local income, sales, and property taxes remains limited to a combined total deduction of $10,000 ($5,000 if married filing separately). Efforts to significantly increase this cap during negotiations on the Inflation Reduction Act were unsuccessful.

5. **IRS funding**

The Inflation Reduction Act gives the IRS $45.6 billion for tax enforcement activities such as hiring more enforcement agents, providing legal support, and investing in “investigative technology.”

**KEY POINT** Supporters argue these funds will reduce the “tax gap,” or the average annual value of unpaid federal taxes. The IRS estimates the tax gap averaged $381 billion after accounting for enforcement between 2011 and 2013, the most recent years available. Some argue the 19% decline in the IRS’s inflation-adjusted funding between 2010 and 2019 facilitated tax evasion. Funding rose in 2020 and 2021, in large part to help the IRS administer COVID-related benefits. The Congressional Budget Office estimates that the additional enforcement measures funded by this bill would generate $204 billion in revenues through 2031, although such estimates are highly uncertain.

**Other tax changes of interest to ministers and other church staff**

There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2022 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit for 2022 if (1) you do not have a qualifying child and you earned less than $16,480 ($22,610 if married); (2) a qualifying child lived with you and you earned less than $43,492 ($49,622 if married filing jointly); (3) two qualifying children lived with you and you earned less than $49,399 ($55,529 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than $53,057 ($59,187 if married filing jointly). The maximum earned income credit for 2022 is (1) $560 with no qualifying child; (2) $3,733 with one qualifying child; (3) $6,164 with two
qualifying children; and (4) $6,935 with three or more qualifying children.

- For contributions in 2022 to a traditional IRA, the deduction phaseout range for an individual covered by a retirement plan at work begins at income of $109,000 for joint filers and $68,000 for a single person or head of household. These are 2022 amounts that increase to $116,000 for joint filers and $73,000 for a single person or head of household for 2023.

- The dollar limit on annual elective deferrals an individual could make to a 403(b) retirement plan was $20,500 for 2022. It increases to $22,500 for 2023.

- The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year was $6,500 for 2022. For 2023, the limit increases to $7,500.

- The IRS has announced that it will not issue private letter rulings addressing the following questions: (1) Whether an individual is a minister of the gospel for federal tax purposes; (2) eligibility for a parsonage exclusion or housing allowance; (3) eligibility for exemption from self-employment taxes; (4) self-employed status for Social Security; or (5) exemption of wages from income tax withholding; and (6) whether amounts distributed to a retired minister from a pension or annuity plan are excludible from the minister’s gross income as a parsonage allowance.

- The standard business mileage rate was 58.5 cents per mile for business miles driven during the first half of 2022, and 62.5 cent per mile for business miles driven during the second half of 2022. The mileage rate for 2023 was not available at the time of publication but will be available on the IRS website.

- Many churches employ retired 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. 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. For 2023 that limit is $21,240. 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 2023 that limit is $56,520 ($4,710 per month) but only earnings before the month you reach full retirement age are counted.

- Will Congress give ministers another opportunity to revoke an exemption from Social Security? It does not look likely, at least for now. No legislation is pending
that would provide ministers with this option.

- In March 2019 a three-judge panel of a federal appeals court (the Seventh Circuit Court of Appeals) unanimously affirmed the constitutionality of the ministers’ housing allowance. *Gaylor v. Mnuchin, 919 F.3d 420 (7th Cir. 2019)*. No further legal challenges to the housing allowance occurred in 2022.

## Preliminary Questions

Below are several questions you should consider before preparing your 2022 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.

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

A. The instructions for Form 1040 state that the deadline for filing Form 1040 for the 2022 tax year is April 18, 2023 (April 19, 2023 if you live in Maine or Massachusetts because of the Patriots’ Day holiday).

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  Many post offices will have extended hours of operation on April 18, 2023, to accommodate late filers.

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

A. You can obtain an automatic six-month extension (from April 18 to October 16, 2023) to file your 2022 Form 1040 if you file Form 4868 by April 18, 2023 with the IRS service center for your area. 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 2022 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 a number of 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 in order to accurately utilize the software. On the other hand, if you experienced unusual events in 2022, 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, but it 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 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 is subject to strict ethical requirements. However, the tax law is complex and so it should not be assumed that all CPAs 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); and

• 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 his 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 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 with regard to services performed in the exercise of their ministry. These two rules are summarized below:

**Income taxes**

For federal income tax reporting, most ministers are employees under the tests currently used by the IRS. 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). Formerly, it meant that they reported their employee business expenses on Schedule A rather than on Schedule C. (The deduction for employee business expenses as a Miscellaneous Itemized Deduction on Schedule A is suspended through 2025, so employee business expenses are not deductible at this time.)

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 but will be self-employed with regard to 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 Church. She is an employee for federal income tax reporting purposes with respect to her church salary. However, she is self-employed with respect to honoraria she receives for speaking in other churches and for compensation church members give her for performing personal services such as weddings and funerals. The church issues Pastor B a Form W-2 reporting her church salary. Pastor B reports this amount as wages on line 1 of Form 1040. She reports her 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 the Form 1040.

**The Tax Court Test.** The United States Tax Court has 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.

**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 & 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 on the basis of 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 nongovernmental 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) which are related to services performed as a minister. Economic, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when it is 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 4.19.6.4.11.3 (02-13-2020) of the IRS 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 the decision is based on economic reasons rather than theological reasons. Check with a tax attorney or CPA 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 nonministerial compensation they receive. And they remain eligible for Social Security benefits based on their nonministerial employment assuming that 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) on the basis of their spouse’s coverage, if the spouse had enough credits.

**KEY POINT**  The amount of earnings required for a quarter of coverage in 2023 is $1,640. 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.

**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 have entered into a voluntary withholding arrangement with their church with respect to federal income tax.
As noted above, ministers’ wages are exempt from 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 2023 if (1) you expect to owe at least $1,000 in tax for 2023 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 percent of the tax to be shown on your 2023 tax return, or (ii) 100 percent of the tax shown on your 2022 tax return (110 percent if adjusted gross income exceeds $150,000, or if married filing separately, more than $75,000). Your 2022 tax return must cover all 12 months.

The four-step procedure for reporting and paying estimated taxes for 2023 is summarized below.

**Step 1**

Compute your estimated tax for 2023 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 2022 may be applied to your estimated tax payments due for 2023.

**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 2023 in each of four quarterly installments as follows:
FOR THE PERIOD | DUE DATE
--- | ---
January 1 – March 31 | April 18, 2023
April 1 – May 31 | June 15, 2023
June 1 – August 31 | September 15, 2023
September 1 – December 31 | January 17, 2024

**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.

**Pay by Card.** To pay by debit or credit card, go to 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.

**EFTPS.** Enroll in the Electronic Federal Tax Payment System at www.eftps.gov and establish an online account to be used to submit payments. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the schedule dates.

**Pay by check using an estimated tax payment voucher.** If you choose this method note that there is a separate estimated tax payment voucher for each quarterly due date. The due date is shown in the upper right corner. Complete and send in the voucher only if you are making a payment by check or money order. If you and your spouse plan to file separate returns, file separate vouchers instead of a joint voucher. If you paid estimated taxes last year, you should receive a copy of your 2023 Form 1040-ES in the mail with payment vouchers preprinted with your name, address, and Social Security number. These payments should be mailed to the IRS certified return receipt to provide for proof of timely filing.
**CAUTION** If your 2022 tax return is not completed by April 18, 2023, you must go ahead and begin making your estimated tax payments to avoid potential underpayment penalties. A tax refund on your 2022 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 2022 return is completed to determine and pay your 2023 estimated tax payments.

**Step 4**

After the close of 2023, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on Form 1040 are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2024 quarterly estimated tax payment or spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

**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 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. 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 it is actually 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.
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 obtain them by calling the IRS toll-free forms hotline at 800-TAX-FORM (800-829-3676). They also are available on the IRS website (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 the 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 the 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 2021 and you are filing a joint return for 2022 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2021 return.

If you plan to move after filing your return, use Form 8822 to notify 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 have been added to include the name of the foreign country/province/state and a foreign postal code.

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**

In the past taxpayers were allowed a deduction for personal exemptions. An exemption is a dollar amount that can be deducted from an individual’s total income, thereby reducing taxable income. This deduction was suspended by Congress for tax years 2018 through 2025. Although the exemption amount is zero, the ability to claim a dependent may make taxpayers eligible for other tax benefits, including the child tax credit, educational credits, medical expenses, the childcare credit and earned income credit, to name a few.

**Step 4: Income**

Several items of income are reported on lines 1 through 8 of Form 1040 including amounts carried over from Schedule 1, lines 1-10. The most important of these (for ministers) are discussed below.

**KEY POINT** Some items, such as the housing allowance, are not reported as income. They are called exclusions and are explained below.

**Line 1. 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.

**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)
- Most Christmas and special occasion offerings
- Retirement gifts paid by a 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 nonaccountable plan

• Imputed cost of group term life insurance coverage exceeding $50,000.

• 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 his or her 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

**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” (meaning 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** The IRS has ruled that disqualified persons receive “automatic” excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes, or receive nonaccountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income 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.

If some of these items were not reported on your Form W-2, they still must be reported as income. 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 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 US income tax, file Form 1040X, Amended US Individual Income Tax Return, with Copy B of Form W-2c to amend the return you previously filed. Even if the church does not issue Form W-2c, the additional items of income should be included on the original or an amended Form 1040. You, the taxpayer, have the ultimate responsibility to report all taxable income even if your church does not properly report the income.

In addition to what is reported on Form W-2 (or Form W-2c), Line 1 will also report the amount of excess housing allowance (the amount by which the housing allowance exceeds the lesser of the minister's housing expenses or the fair rental value of the minister's home plus utilities).

**Items not reported on line 1.** 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.

*Lodging.* The value of lodging furnished to a minister, i.e., 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 nonminister 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. The exclusion may not exceed $5,250 per year.

*Employer-provided childcare.* Churches may provide for childcare to employees through free or reduced fees at a church’s childcare 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. The amount of employer provided childcare must be considered in calculating the child and dependent care credit available on an employee’s Form 1040. The total benefits provided through the plan is 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.
There are four other exclusions that are explained below—the housing allowance, tax-sheltered annuities, qualified scholarships, and sale of a home.

**Housing Allowance**

**KEY POINT** The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected the challenge and affirmed the constitutionality of the housing allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. 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 (furnished, plus 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 SAVINGS TIP** Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (such as 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. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

**TAX SAVINGS 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 SAVINGS 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.

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.”

States vary in the tax treatment of the housing allowance under state law 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 them a Form W-2 or a Form 1099-NEC).

**Housing expenses to include in computing your housing allowance exclusion**

Ministers who own or rent their home should take the following expenses into account in computing their housing allowance exclusion:

- Down payment on a 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, as furnished, plus utilities, it is often difficult to exclude the full amount of a down
payment for a new home.)

• Mortgage payments on a loan to purchase or improve your home (include both interest and principal)

• Rent

• Real estate taxes

• Property insurance

• Utilities (electricity, gas, water, trash pickup, land-line telephone charges)

• Furnishings and appliances (purchase and repair)

• Structural repairs and remodeling

• Yard maintenance and improvements

• Maintenance items (pest control, etc.)

• Homeowners 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 (i.e., 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 (as furnished, plus 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. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by the church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister’s home (as furnished, plus 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 1a 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 2022 compensation as a housing allowance. Pastor D’s housing expenses for 2022 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) 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 her home (furnished, plus 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; or (3) the fair rental value of the home (furnished, plus utilities). In this case, the lowest of these three amounts is the fair rental value of the home, furnished plus utilities ($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 her church ($2,000) as additional income on line 1a 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 the Pastor D’s actual housing expenses were more than the allowance, and so she was penalized because of the low allowance designated by her church.
EXAMPLE  Pastor Y owns a home and incurred housing expenses of $12,000 in 2022. These expenses include mortgage principal and interest, property taxes, utilities, insurance, and repairs. The church designated (in advance) $12,000 of Pastor Y’s 2022 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 $10,000), 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 2022, Pastor H discovers that his church failed to designate a housing allowance for him for 2022. He asks his church to pass a resolution retroactively granting the allowance for 2022. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2022.

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 SAVINGS 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 or her 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 (furnished, plus 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 take into account 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 of 2023 that it failed to designate a housing allowance for its pastor for 2023. It is not too late to act. The church should immediately designate a portion of its minister’s remaining compensation for 2023 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 2021 board meeting (i.e., “for 2022 and future years”) it would not matter that the church neglected to designate a minister’s 2023 allowance until March of 2023, since the previous designation would have “carried over”. Such “safety net” designations are not a substitute for annual housing allowances (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 or her church or the church pension board of a denominational pension fund; (2) the retired minister has severed his or her 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 he or she performs or performed.

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

**Section 403(b) plans**

Payments made by your church and your 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 your retirement account does not exceed contribution limits under Sections 415(c) and 402(g) of the tax code.

**Contribution limits**

For 2022 total annual additions (employer contributions, salary reduction and after-tax paid contributions) could not exceed the lesser of 100 percent of your compensation (excluding a minister’s housing allowance) or $61,000. This rule is known as the “section 415(c) limit.” The limit does not include the additional catch-up contributions of $6,500 that may be contributed through elective deferrals by persons over 50. Excess contributions can result in income tax, 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.
**NEW IN 2023**  The limit on annual additions increases to $66,000 for 2023 and the additional catch-up contributions for persons over 50 increases to $7,500.

**Minister’s housing allowance and contribution limits**

For 2022 the Section 415(c) limit restricts 403(b) contributions to the lesser of 100 percent of compensation or $61,000. For 2023, this amount is $66,000. 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, then 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:

*Question.* 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?

*Answer.* 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 denomination 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.

**KEY POINT** 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 percent of your compensation. The total contributions over your lifetime under this election cannot be more than $40,000.

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**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
- in the case of elective deferrals, encounters financial hardship

In some cases of financial hardship, you may withdraw your own salary reduction contributions (but not the earnings on them) prior to the occurrence of any of the above events. A 403(b) plan may make hardship distributions only if permitted by the plan.

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 your reaching age 59½, you will be assessed an additional tax of 10 percent of the amount which is includable 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.

• IRA distributions made for qualified higher education expenses.

• IRA distributions made for the purchase of a first home, up to $10,000.

The additional tax is computed on Form 5329.

You cannot keep retirement funds in your retirement account indefinitely. You generally have to start taking withdrawals from your IRA or 403(b) plan when you reach age 70½. However, because of changes made by the SECURE Act (2019) if your 70th birthday is July 1, 2019, or later, you do not have to take withdrawals until you reach age 72. Roth IRAs do not require withdrawals until after the death of the owner. Your required minimum distribution is the minimum amount you must withdraw from your account each year. Your withdrawals will be included in your taxable income except for any part that can be received tax-free (such as qualified distributions from designated Roth accounts). Calculating your required minimum distribution 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’s “Uniform Lifetime Table.” 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: (1) reach age 72 (age 70½ if born before July 1, 1949), or (2) retire (if your plan allows this), whichever date is later. The IRS website contains helpful resources for computing your required distribution amounts and payout periods.

**CAUTION** If you do not take any required distributions, or if the distributions are not large enough, you may have to pay a 50 percent excise tax on the amount not distributed as required.
Salary reduction contributions (Section 402(g))

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 2022 the allowable limit was $20,500. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

NEW IN 2023 The dollar limit on annual elective deferrals increases to $22,500.

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 is $6,500 for 2022 and $7,500 for 2023. 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 Publication 571 for more information.

NEW IN 2023 As this guide was going to press, a comprehensive package of retirement plan reforms (Enhancing American Retirement Now Act) was being considered by Congress with overwhelming bipartisan support. It is virtually certain that some or all of these reforms will be enacted in the coming months. Even if enacted, it is unlikely that any of the provisions in the Act will apply to the preparation of taxes for tax year 2022.

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 the
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 nonqualified expenses (such as 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 noncompensatory in nature, selected using nonemployment 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 or tax attorney to determine the proper treatment of scholarships to employees and their children.

**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.”

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.

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. In addition, 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.”

**EXAMPLE**  First Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master’s degree at a seminary. The church board votes to award him a scholarship of $2,500 for 2023. So 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 (for example, fees, books, 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 nonqualified 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.

**Sale or exchange of your principal residence**

A taxpayer who is an individual may exclude up to $250,000 ($500,000 if married filing a joint return) 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 married filing a joint return) 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 2 (Form 1040). Interest income: attach Schedule B if over $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 (Form 1040). 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 that $1,500, complete Schedule B.
Line 4a- (Form 1040). IRA distributions
You should receive a Form 1099-R showing the total amount of distributions from your Individual Retirement Accounts (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.

Line 5a (Form 1040). Pensions and annuities
Pension and annuity payments include distributions from 401(k) and 403(b) plans. Do not include the following payments on lines 5a and 5b. Instead report them on line 1.

- 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 percent of pension and disability benefits paid to retired ministers as a housing allowance. In such cases the 1099-R form 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 (furnished, including utilities) and (3) the applicable pension board designated the retirement payments as housing allowance.

IRS Publication 517 states: “If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister’s surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.”

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.
Line 6a (Form 1040). 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 2022 was your Social Security benefits, your benefits generally aren’t taxable. But some taxpayers have to pay federal income taxes on their Social Security benefits (retirement, survivor, and disability). This usually happens only if you have other substantial income in addition to your benefits (such as wages, self-employment, 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
  - between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your benefits.
  - more than $34,000, up to 85 percent of your benefits may be taxable.
- **file a joint return**, and you and your spouse have a combined income that is
  - between $32,000 and $44,000, you may have to pay income tax on up to 50 percent of your benefits.
  - more than $44,000, up to 85 percent of your benefits may be taxable.

Your combined income is your adjusted gross income plus non-taxable interest and ½ of your Social Security benefits.

Each January, you will receive a Social Security Benefit Statement (Form SSA-1099) 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). Publication 915 is available at IRS.gov.

**Line 7 (Form 1040). 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.

**Line 8 (Form 1040). Other Income**

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

1. **Line 3 (Schedule 1). Business income**

   Report self-employment earnings (from Schedule C). Self-employment earnings include:
   - Compensation reported to you on a Form 1099-NEC
   - Fees received directly from church members for performing personal services (such as marriages 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 8z of Schedule 1 (Form 1040). Other income includes the following items:
   - 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 MSA
• Jury duty pay

• Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within 3 years of the contribution.

• 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 (Form 1040). Total income**

Report “total income” on this line. This is the sum of the amounts reported on lines 1-7 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.

**Line 10 (Form 1040) Adjustments to income**

You may deduct certain adjustments from total income (line 9) to compute your adjusted gross income. Report the adjustments on lines 11 through 26 of Form 1040 (Schedule 1) and on line 10 (Form 1040). The total amount is subtracted from line 9 (Form 1040) to compute adjusted gross income that is reported on line 11.

The two most relevant adjustments for ministers are the deduction for one-half of the self-employment tax, and payments to an individual retirement account (IRA). Both are summarized below.

1. **Line 15 (Schedule 1) One-half 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). Payments to an individual retirement account (IRA)**

   An individual retirement arrangement, or 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 kinds 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 owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

Prior to 2020, if you were 70 ½ or older, you could not make a regular contribution to a traditional IRA. However, you could contribute to a Roth IRA and make rollover contributions to a Roth or traditional IRA regardless of your age. For 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs.

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 didn’t have taxable compensation as long as your spouse did. Each spouse can make a contribution up to the current limit; however, the total of your combined contributions can’t be more than the taxable compensation reported on your joint return.

For 2022, 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 smaller of the following two amounts: (1) $6,000 ($7,000 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. (The contribution limit increases to $6,500 for 2023.)

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2022 IRA contribution must be made by April 18, 2023, even if you obtain an extension for filing this return.

EXAMPLE A church has a senior pastor who is 52 years old, and a youth pastor who is 30 years old. The church does not participate in a
retirement program for its staff. In 2023, the senior pastor can contribute $7,500 to an IRA (maximum annual contribution of $6,500 plus a “catch-up” contribution of $1,000), and the youth pastor can contribute $6,500.

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 2022, if you were covered by an employer provided retirement plan, then the deduction for contributions to your IRA are completely phased out when adjusted gross income reached $129,000 (MFJ) or $78,000 (Single). For 2023 the limits are $136,000 (MFJ) and $83,000 (Single).

If your spouse was covered by an employer retirement plan at any time during 2022 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when adjusted gross income reaches $214,000 (MFJ). (For 2023 the limit is $228,000 (MFJ).) (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.

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

Individuals who cannot claim a deduction for an IRA contribution still can make nondeductible IRA contributions, subject to the lesser of $6,000 for 2022 (or $6,500 for 2023) 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 nondeductible contributions were made to the IRA. Form 8606 is used to designate a contribution as nondeductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10 percent penalty tax that also applies to deductible IRA contributions.

Distributions from a traditional IRA are fully or partially taxable in the year of distribution. Use Form 8606 to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

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 nondeductible contributions to a Roth IRA. However, you may be limited in the amount of nondeductible contributions you may make to your Roth IRA due to your adjusted gross income (AGI). For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2022 if your AGI, as modified, is $214,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is $144,000 or more. (For 2023, the Roth IRA contribution is phased out totally when AGI is $228,000 for taxpayers married filing jointly and $153,000 for singles and head of household filers.)

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 there are limitations on the amount that can be contributed and the time of year that contributions can be made. 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 Publication 590-A for additional information on Roth IRA(s).

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

In the past, if you were 70 1/2 or older, you could not make a regular contribution to a traditional IRA. However, you could still contribute to a Roth IRA and make rollover contributions to a Roth or traditional IRA regardless of your age subject to the above-described income limitations. For 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs.

Charitable contributions. A qualified charitable distribution (QCD) is a distribution made directly by the trustee of your individual retirement arrangement (IRA), other than an SEP or SIMPLE IRA, to certain qualified organizations. You must have been at least age 70 1/2 when the distribution was made. Your total QCDs for the year can't be more than $100,000. If all the requirements are met, a QCD is nontaxable, but you can't claim a charitable contribution deduction for a QCD. For more information, see IRS Publications 526 (Charitable Contributions) and 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).

**KEY POINT** The QCD does need 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. Best practice is for the recipient charity or church to issue a separate statement for the gift.

**Line 11 (Form 1040). Adjusted gross income**

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 of various deductions and credits.

**Tax computation**

**Line 12 (Form 1040). Itemized deductions or standard deduction**

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

On line 12 you enter either your itemized deductions from Schedule A or a standard deduction amount. Itemized deductions are discussed under Schedule A in this guide. For 2022, the standard deduction amounts are as follows:

**FILING STATUS AND STANDARD DEDUCTION AMOUNT (2022)**

- single ........................................................ ..........................................................$12,950
- married filing jointly or qualifying widow(er) ...................... $25,900
- married filing separately ..................................................$12,950
- head of household .................................................................$19,400

Additional standard deductions are available for each taxpayer who is over 65 and/or blind depending on their filing status.
**Line 13 (Form 1040). 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 qualified business income (QBI) less one-half of the self-employment tax directly related to the qualified business income, 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 qualified business income deduction less net capital gains.

Upon publication of this guide, it has been interpreted that the qualified business trade or business activities of ministers who report their federal income taxes as self-employed may be 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 $170,050 ($340,100 if married filing jointly) for 2022 then the deduction may be limited; if taxable income exceeds $220,050 ($440,100 married filing jointly) for 2022 then the deduction is unavailable. Attach either the Form 8995 or 8995-A and possibly Schedules A, B and C (Form 8995-A), as needed.

**Line 16 (Form 1040). 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).

**Credits**

A credit is a direct dollar-for-dollar reduction in your tax liability. It is much more valuable than deductions and exclusions, which merely reduce taxable income. There are two types of credits. Nonrefundable credits can only offset total taxes and can never create a refund. 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.

**Lines 19 & 28 (Form 1040) Child Tax Credit.**

The child tax credit was greatly increased for 2021, but for 2022 it returns to its pre-2021
limits of $2,000 per qualifying child under the age of 17 and $500 per a qualifying dependent that does not meet the definition of a qualifying child. The $500 per qualifying dependent is a nonrefundable credit and reported on Line 19. A portion of the credit associated with a qualifying child may be nonrefundable, reported on Line 19, and a portion of the credit is refundable and reported on Line 28. This is referred to the “Additional Child Tax Credit” and the maximum amount of the refundable portion of the credit is $1,500 per qualifying child. The credit is reduced based on a taxpayer’s modified adjusted gross income (MAGI) and is completely phased out at $400,000 MAGI for jointly filed returns and $200,000 MAGI for all other filers. The credit is calculated on Form 8812.

**Line 20 Schedule 3 (Form 1040)**

On your 2022 Form 1040, nonrefundable 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 nonrefundable 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, 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. Reverting to pre-2021 limits, the credit is limited to $1,050 for one qualifying individual and $2,100 if there are two or more qualifying individuals.

- **the credit for education expenses –(see Form 8863 and Publication 970) –**
  Credits for higher education include the American Opportunity Credit (partially refundable reported on Line 29) and the Lifetime Learning Credit (nonrefundable) Credits are fully phased out at $180,000 for those filing married filing jointly and $90,000 for other filers.

- **the retirement savings credit (Form 8880, Publication 590-A)**
  If you make eligible contributions to certain eligible retirement plans or to an individual retirement arrangement (IRA), you may be able to take a tax credit. The amount of the saver’s credit you can get is generally based on the contributions you make and your credit rate. Refer to Publication 590-A or the instructions for Form 8880 for more information. The credit is phased out at $68,000 of
adjusted gross income for those filing married filing jointly, at $51,000 for those filing head of household and at $34,000 for those filing single or married filing separately.

Lines 27, 28 & 29 (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 reported on Form 1040 Line 27 (addressed later in this guide).
- Child tax credit calculated on Form 8812 reported on Line 28 of the Form 1040 (see previous discussion in this guide).
- American opportunity credit calculated on Form 8863 and reported on Line 29 of Form 1040 (see previous discussion in this guide).

**Other taxes (Form 1040 line 23, from Schedule 2, line 21 (“other taxes”))**

On the Form 1040 for 2022, “other taxes” are derived from line 21 of Schedule 2 and the total of all taxes from Schedule 2 is carried over to line 23 of Form 1040. These include self-employment taxes which ministers must pay on ministerial income (unless exempt). Total taxes are reported on Line 24 of Form 1040.

**Payments**

On the 2022 Form 1040, 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 (Form 1040). 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 federal income tax withholding. As a result, only those ministers who have entered into 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 enter into 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, (Form 1040). 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 2022 tax year is reported as a payment of taxes on line 26 of Form 1040. Additionally, any amount of an overpayment from 2021 applied to the 2022 estimated tax payments is included on this line.

Line 27 (Form 1040). Earned income credit
The earned income credit reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the earned income credit do not claim it because it is so difficult to compute. In most cases, the amount of your earned income credit 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 modified adjusted gross income.

You may be able to claim the earned income credit for tax year 2022 if you have non-retirement investment income of $10,300 or less. The maximum earned income credit for 2022 is (1) $560 with no qualifying child, (2) $3,733 with one qualifying child, (3) $6,164 with two qualifying children, and (4) $6,935 with three or more qualifying children.

If you qualify for it, the earned income credit (EIC) 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 $6,935 for 2022 ($7,430 for 2023).

You cannot take the credit for 2022 if your earned income (or AGI, if greater) is more than
• $16,480 ($22,610 if married filing jointly) if you do not have a qualifying child,
• $43,492 ($49,622 if married filing jointly) if you have one qualifying child,
• $49,399 ($55,529 if married filing jointly) if you have two qualifying children, or
• $53,057 ($59,187 if married filing jointly) 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 earned income credit, you must use the EIC Worksheet and EIC 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.

IRS Publication 596 is a 44-page publication that explains the earned income credit. The 2021 edition (the most recent available at the time of publication of this text) states, in general: “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.

Excerpts from Publication 596 confirm that 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 earned income credit.

But what about ministers who have exempted themselves from self-employment taxes by filing a timely Form 4361 with the IRS? Do they include a housing allowance or the rental value of a parsonage in computing their earned income for purposes of the earned income credit? As noted above, Publication 596 explicitly states, with regard to ministers who have filed Form 4361, that “a nontaxable housing allowance or the nontaxable rental value of a home is not earned income.”

With respect to ministers who have filed a timely Form 4361, Publication 596 states:
Whether or not you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation.

If you have an approved Form 4361, a nontaxable housing allowance or the nontaxable rental value of a home isn’t earned income. Also, amounts you received for performing ministerial duties, but not as an employee, don’t count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

Ministers who are affected by this issue should consult their tax professional for help.

**KEY POINT** The definition of “earned income” for the Earned Income Credit 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 in light of how it affects the Earned Income Credit and the Additional Child Tax Credit.

**Refund or amount you owe**

After totaling your payments on Form 1040 Line 33, you can calculate whether you owe the government, or a refund is due you. If you owe a tax, be certain to enclose with your return a check in the amount you owe payable to the “United States Treasury” or by making the payment through your EFTPS account or at IRS.gov/payments. There are also payments methods directly through the IRS available at www.irs.gov/payments or tax practitioners can assist you in making a payment as a part of electronically filing your tax return. Do not attach the check to your return, but include it with a Form 1040-V. If you file your return electronically, the payment may be sent in separately using the Form 1040-V. Include your daytime phone number, your Social Security number, and write “Form 1040 for 2022” on the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to line 38 of Form 1040). If you are paying taxes after April 18, 2023, you may also owe late payment penalties and interest.
If you have overpaid your taxes, you have two options: (1) request a full refund, or (2) apply the overpayment to your 2023 estimated tax (refer to line 36 of the Form 1040).

**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 the 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 in order 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 percent of your adjusted gross income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 7.5 percent 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, the doctor, or the 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 (do not include amounts paid to health sharing arrangements)

• Special equipment

• Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums

• Medicare B premiums you pay

• 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 (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)

• Transportation for necessary medical care. For 2022, the standard mileage rate for medical travel was 18 cents per mile. The 2023 rate was not available at the time of publication. It can be found on the IRS website.

• 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

• Nonprescription medicines and drugs

• Nursing care for a healthy baby

• Toothpaste, cosmetics, toiletries

• Trip 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 in lieu of the itemized deduction for State and local income taxes. This provision was added to address the unequal treatment of taxpayers in the seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

Taxpayers may claim an itemized deduction of up to $10,000 ($5,000 for 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.

The $10,000 limitation applies until 2025.

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)

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:

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

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 $1,000,000 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 $1,000,000 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 will automatically be a portion of the interest paid on the new mortgage that is not deductible.

Congress enacted legislation in 2021 that provides for the deductibility of mortgage insurance premiums (MIP) through 2022. The deduction is phased out if you’re your adjusted gross income is more than $109,000 (MFJ).
Step 4: Gifts to charity (lines 11-14)

For 2022, cash contributions to churches, schools, and most other public charities, that are US organizations, are deductible up to 60 percent of adjusted gross income. 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 noncash property are reported on line 12.

If you cannot itemize your deductions, a cash contribution up to $300 ($600 for married persons filing a joint return) was allowed on Form 1040, Line 12b, in 2021. However, this deduction expired at the end of 2021, and will not be available in 2022 and future years unless extended by Congress.

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 (for 2022 and 2023). 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 the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A.

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 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 an itinerary of 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 percent of adjusted gross income (2022). 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 percent or 30 percent of adjusted gross income, depending on the recipient and the form of the contribution.

Restricted contributions are those that are 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 that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark 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 supplement to this guide entitled 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 noncash property (other than publicly traded securities), then 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 an individual basis. In addition to the above rules, the donor must also obtain a qualifying acknowledgement 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 IRS 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.

**Step 5: Casualty and theft losses (line 15)**

You can only deduct personal casualty and theft losses attributable to a federally declared disaster 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 the $100 limit discussed above) is more than 10 percent of the amount on Form 1040 or 1040-SR, line 11. See the
NOTE: Job expenses and most other miscellaneous deductions

Employee business expenses that are either unreimbursed, or reimbursed by an employer under a nonaccountable arrangement, are no longer deductible as an itemized deduction by an employee through 2025.

The elimination of an itemized deduction for unreimbursed employee business expenses hit some clergy hard. But this impact can be minimized if a church reimburses employees’ business expenses under an accountable expense reimbursement arrangement. To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

- Expenses must have a business connection—that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.

- Employees are only reimbursed for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).

- 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).

- The income tax regulations caution that in order 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.

The elimination of "all miscellaneous itemized deductions that are subject to the 2 percent floor under present law" (including unreimbursed employee business expenses, and employee expenses reimbursed under a nonaccountable plan) has encouraged many churches to move to an accountable expense reimbursement plan, since section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of
employee business expenses under an accountable plan (defined above) has not been modified.

**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 involved with a foreign trust. For most taxpayers, the schedule is triggered by the reporting of taxable interest and/or dividends of more than $1,500.

**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 2022. Be sure the interest you report on line 1 corresponds to any 1099INT forms 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-finance 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 2022. Be sure the dividends you report on line 5 correspond to any 1099-DIV forms you received from such institutions. Ordinary dividend income is carried over to line 3b of Form 1040.

**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 county 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 the 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. 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. Ministers should list code 541990 on line B, since for many years this was the code the IRS used in a clergy tax illustration in Publication 517. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as traveling evangelists.

**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 more than $600 through an electronic payment system, then you may receive a Form 1099-K. Such payments may have come through credit card payments or other forms of third party electronic payments. In the past such payments were not reported unless they were $20,000 or more to one recipient. For 2022, the filing limit has been lowered to $600 or more. Even if the payments do not represent taxable income, they must be reported on your tax return. If they do not represent taxable income, then a corresponding deduction may be claimed against the income with a statement included in the tax return. If these amounts are simply omitted from your return, then the IRS will issue a matching notice with a corresponding tax bill within one to two years.

**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 nondeductibility of unreimbursed and nonaccountable 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 (see above).

Report any business expenses associated with your self-employment earnings on lines 8 through 27. For example, if you incur transportation, travel or other expenses in the course of performing self-employment activities, you deduct these expenses on lines 8 through 27 of Schedule C. Entertainment expenses are generally nondeductible. 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. You may deduct 100% of your meal expenses if the food and beverages were provided by a restaurant, and paid or incurred after December 31, 2020, and before January 1, 2023.

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 non-taxable income. (Many refer to this rule as the Deason Rule.) See IRS Publication 517.

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 W-2)
- fees you receive for marriages, baptisms, funerals, masses, etc.
- self-employment earnings from outside businesses
- annual rental value of a parsonage, including utilities paid by church (unless you are retired)
- a housing allowance (unless you are retired)
- business expense reimbursements paid under a nonaccountable plan but omitted from your W-2
- 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:

- most income tax exclusions other than housing allowance, parsonage value, meals or lodging furnished for the employer’s convenience, and the foreign earned income exclusion
- salary reduction contributions (elective deferrals) to a tax-sheltered annuity plan (403(b) plan) if included in your gross income above
- pension payments or retirement allowances you receive for your past ministerial services
- 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”

**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 percent, 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 2022 is totaled on this line. The self-employment tax rate for 2022 is 15.3 percent, which consists of the following two components:

1. a Medicare hospital insurance tax of 2.9 percent calculated on Line 11, and
2. an old-age, survivor and disability (Social Security) tax of 12.4 percent calculated on Line 10.

For 2022, the 2.9 percent Medicare tax applies to all net earnings from self-employment regardless of amount. For 2022, the 12.4 percent Social Security tax applies to only the first $147,000 of net self-employment earnings. (For 2023, the maximum earnings subject to Social Security tax is $160,200.)

**Form 8959, Additional Medicare Tax**

An additional Medicare tax is calculated on wages or self-employment income of higher income taxpayers. A Medicare (HI) tax of an additional tax of 0.9 percent 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 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 2023.

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.
PART 4
COMPREHENSIVE EXAMPLE AND FORMS

Example One: Active Minister

Example Two: Retired Minister
CLERGY TAX REPORTING:
ILLUSTRATED EXAMPLES

Rev. John Michaels is the minister of the First United 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 SE 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 for 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 $3,400. 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 parsonage 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 2022.

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 through 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 parsonage allowance for the year and identified it.

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

1. “Let’s check for uncommon situations.”
   Be sure to 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.” Turbo Tax 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 Turbo Tax 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’ $3,400 salary.

Box 2. The college withheld $272 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 $210.80 in Social Security taxes.

Box 6. The college withheld $49.30 in Medicare taxes.

Schedule C (Form 1040)

Note, for tax years 2019 and later, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.

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 through 7. Rev. Michaels fills out these lines to report his gross income reported on line 7. Rev. Michael 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 – 27a. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of $87 for marriage and family booklets and $251 for 414 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 standard mileage rate for January 1, 2022 through June 30, 2022 of 58.5 cents by the 200 miles driven before July 1, 2022, and multiplied the standard mileage rate for July 1, 2022 through December 31, 2022 of 62.5 cents by the 214 miles driven after June 30, 2022. 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 parsonage 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 on Part IV.

Line 27a. Rev. Michaels reports $87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage 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 27a. 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 parsonage allowance, ($188 + $65) on line 28.

Line 29 through 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. Michael 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 through 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 27a.

**Turbo Tax tips**: Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the miscellaneous expenses and input the nondeductible 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 SE 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, 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 no longer 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 1,204 miles before July 1, 2022 and 1,140 miles after June 30, 2022. He multiplies the miles driven before July 1, 2022 by the mileage rate of 58.5 cents per mile and multiples the miles driven after June 30, 2022 by the mileage rate of 62.5 cents per mile. The combined 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 is $1,721.

Line 4a through Line 6. He multiplies $63,826 by .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.

Line 8a through 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 lines 8b or 8c.

Line 10. The amount on line 6 is less than $143,600, so Rev. Michaels multiplies the amount on line 6 ($58,943) by .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 .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), line 4 and 21.
Line 13. Rev. Michaels multiplies the amount on line 12 by .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), line 15.

**Turbo Tax 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 SE 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).

**Form 1040, Lines 1a through 18 and Schedule 1 (Form 1040)**

Before Rev. Michaels can prepare Form 8995 to compute the Qualified Business Income Deduction for 2022, and Schedule 8812 to compute the Child Tax Credit for 2022, Rev. Michaels must complete certain parts of the Form 1040.

He fills out Form 1040, along with Schedules 1 through 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 $48,400. This amount is the total of the amounts reported in Box 1 of his Forms W-2 ($45,000 from the church and $3,400 from the college).

Form 1040, Line 1h. While not abundantly clear, with the revisions made to the Form 1040 for 2022, it appears that the $240 excess housing allowance (the excess of the amount designated and paid to Rev. Michaels as a parsonage allowance over the lesser of his actual expenses and the fair rental value of his home, including furnishings and utilities) can 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 $48,640 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 ($52,387) 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 11-24, Rev. Michaels reports $4,509 on Line 26 and enters this amount on Form 1040, Line 10.

Form 1040, Line 12. He enters the standard deduction for married couples filing jointly ($25,900) since this is greater than Rev. Michaels’ potential 2022 itemized deductions.

Form 1040, Line 13. Rev. Michaels adds the qualified business income deduction on Form 8995, line 15 (Form 8995 is prepared below), and enters the total ($696) on line 13.

Form 1040, Line 14. Rev. Michaels adds the amounts on Form 1040, Line 12 and Line 13, and enters the total ($26,596) on line 14.

Form 1040 Line 15. Subtract line 14 from line 11. This amount is taxable income.
Form 1040, Page 2, Line 16 and 18. Rev. Michaels uses the tax tables in the 2022 Form 1040 instructions to determine his applicable tax and enters the amount ($2,142) on the space provided on line 16 and line 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 2022 taxable income of less than $170,050 ($340,100 if married filing jointly) before the application of a qualified business income 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 * .9235 * .153 * .5 = $265) which results in $3,482 on line 1i, Column (c). Since there are no other amounts listed on lines 1ii through line 1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total qualified business income 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 20% 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 qualified business income deduction ($21,978) on line 11. This amount is equal to Form 1040, line 11 ($47,878) less Form 1040, line 12 ($25,900). 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 20% ($4,396), 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 13.

Line 16 through Line 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 line 6 and line 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 2022.

Line 1 through Line 3. Rev. Michaels enters in the amount from Form 1040, line 11 on line 1 and line 3, since he does not have any amounts to report on lines 2a through 2d.
Line 4. Rev. Michaels enters 1 at line 4 since the Michaels had one qualifying child under the age of 17 at the end of 2022. Line 4 is multiplied by $2,000, and $2,000 is entered on line 5 and line 8 (since the Michaels did not have any other dependents to enter on line 6),

Line 9. Rev. Michaels enters $400,000 since his filing status is married filing jointly.

Lines 10 and 11. Rev. Michaels enters $0 because line 3 ($47,878) less line 9 ($400,000) is less than $0.

Line 12. Rev. Michaels enters $2,000 (line 8 less line 11).

Line 13. Rev. Michaels refers to the Credit Limit Worksheet A in the Schedule 8812 instructions and enters $2,142 on line 13.

Line 14. Rev. Michaels enters $2,000, the smaller of line 12 or 13. Rev. Michaels also enters $2,000 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 skips the remainder of the form and enters $0 on line 27.

Form 1040, Lines 19 through 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 can take the child tax credit for their daughter, Jennifer. Jennifer is under the age of 17 at the end of 2022. 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) line 4 and line 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, Line 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, Line 27 through Line 32. Rev. Michaels completes the earned income credit worksheet in the Form 1040 instructions and determines that he does not qualify for the earned income credit. Accordingly, Rev. Michaels does not enter any amount on lines 27 through 32.

Form 1040, Page 2, Line 33. Rev. Michaels adds the amount reported on line 25d and line 26 to show the total tax payments made on line 33 ($12,272).

Form 1040, Page 2, Line 34 and 36. Rev. Michaels totals his overpayment by subtracting line 33 from line 24 ($3,112). Rev. Michaels enters $3,112 on line 36 because he has chosen to apply the refund to his 2023 estimated tax payments.
Form W-2 Wage and Tax Statement

Copy B—To Be Filed With Employee’s FEDERAL Tax Return.

This information is being furnished to the Internal Revenue Service.
**Employee’s Social Security Number**: 011-00-1111

**Employer Identification Number (EIN)**: 00-1357913

**Employee’s First Name and Initial**: John E. Michaels

**Employee’s Address and ZIP Code**: 1040 Main Street, Hometown, Texas 77099

**Employer’s Name, Address, and ZIP Code**: Hometown College

<table>
<thead>
<tr>
<th>Box</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wages, tips, other compensation</td>
<td>3400.00</td>
</tr>
<tr>
<td>2</td>
<td>Federal income tax withheld</td>
<td>272.00</td>
</tr>
<tr>
<td>3</td>
<td>Social security wages</td>
<td>3400.00</td>
</tr>
<tr>
<td>4</td>
<td>Social security tax withheld</td>
<td>210.80</td>
</tr>
<tr>
<td>5</td>
<td>Medicare wages and tips</td>
<td>3400.00</td>
</tr>
<tr>
<td>6</td>
<td>Medicare tax withheld</td>
<td>49.30</td>
</tr>
<tr>
<td>7</td>
<td>Social security tips</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Allocated tips</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Dependent care benefits</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Nonqualified plans</td>
<td></td>
</tr>
<tr>
<td>12a</td>
<td>See instructions for box 12</td>
<td></td>
</tr>
<tr>
<td>12b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12d</td>
<td></td>
<td></td>
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<td>13</td>
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<td>14</td>
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<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
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</tr>
</tbody>
</table>

**Employer’s State ID Number**: 011-00-1111

**State Wages, Tips, etc.**: 3400.00

**State Income Tax**: 272.00

**State Worker’s Social Security Number**: 011-00-1111

**Safeguard Your Information**

Visit the IRS website at www.irs.gov/efile

**Form W-2 Wage and Tax Statement**

**Copy B – To Be Filed With Employee’s FEDERAL Tax Return.**

This information is being furnished to the Internal Revenue Service.
Form 1040
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2022

OMB No. 1545-0074
IRS Use Only—Do not write or staple in this space.

Filing Status
Check only one box.
- Single
- Married filing jointly
- Married filing separately (MFS)
- Head of household (HOH)
- Qualifying surviving spouse (QSS)

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child’s name if the qualifying person is a child but not your dependent:

Your first name and middle initial
John E. Michaels

If joint return, spouse’s first name and middle initial
Susan R. Michaels

Home address (number and street). If you have a P.O. box, see instructions.
1040 Main Street

City, town, or post office. If you have a foreign address, also complete spaces below.

Hometown

Foreign country name

Foreign province/state/county

Foreign postal code

Apt. no.

Digital Assets
At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.)
- Yes
- No

Standard Deduction
- Someone can claim: You as a dependent
- Your spouse as a dependent

Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness
- Were born before January 2, 1958
- Are blind
- Was born before January 2, 1958
- Is blind

Dependents
(see instructions):

<table>
<thead>
<tr>
<th>First name</th>
<th>Last name</th>
<th>Social security number</th>
<th>Relationship to you</th>
<th>Child tax credit</th>
<th>Credit for other dependents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer</td>
<td>Michaels</td>
<td>01100111</td>
<td>Daughter</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

Excess allowance $240

Standard Deduction
- Single or Married filing separately, $12,950
- Married filing jointly or Qualifying surviving spouse, $25,900
- Head of household, $19,400

If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.
**Form 1040 (2022)**

### Tax and Credits

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Tax (see instructions). Check if any from Form(s): 1 8814 2 4972 3</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Amount from Schedule 2, line 3</td>
<td>16</td>
</tr>
<tr>
<td>18</td>
<td>Add lines 16 and 17</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Child tax credit or credit for other dependants from Schedule 8812</td>
<td>19</td>
</tr>
<tr>
<td>20</td>
<td>Amount from Schedule 3, line 8</td>
<td>20</td>
</tr>
<tr>
<td>21</td>
<td>Add lines 19 and 20</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Subtract line 21 from line 18. If zero or less, enter -0-</td>
<td>22</td>
</tr>
<tr>
<td>23</td>
<td>Other taxes, including self-employment tax, from Schedule 2, line 21</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Add lines 22 and 23. This is your total tax</td>
<td>24</td>
</tr>
</tbody>
</table>

### Payments

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>25</td>
<td>Federal income tax withheld from:</td>
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</tr>
<tr>
<td>a</td>
<td>Form(s) W-2</td>
<td>25a 272</td>
</tr>
<tr>
<td>b</td>
<td>Form(s) 1099</td>
<td>25b</td>
</tr>
<tr>
<td>c</td>
<td>Other forms (see instructions)</td>
<td>25c</td>
</tr>
<tr>
<td>d</td>
<td>Add lines 25a through 25c</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>2022 estimated tax payments and amount applied from 2021 return</td>
<td>26 12,000</td>
</tr>
<tr>
<td>27</td>
<td>Earned income credit (EIC)</td>
<td>27</td>
</tr>
<tr>
<td>28</td>
<td>Additional child tax credit from Schedule 8812</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>American opportunity credit from Form 8863, line 8</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Reserved for future use</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Amount from Schedule 3, line 15</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits</td>
<td>32</td>
</tr>
<tr>
<td>33</td>
<td>Add lines 25d, 26, and 32. These are your total payments</td>
<td>33 12,272</td>
</tr>
</tbody>
</table>

### Refund

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid</td>
<td>34 3,112</td>
</tr>
<tr>
<td>35a</td>
<td>Amount of line 34 you want refunded to you. If Form 8888 is attached, check here</td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Routing number</td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Type: Checking, Savings</td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>Account number</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Amount of line 34 you want applied to your 2023 estimated tax</td>
<td>36 3,112</td>
</tr>
</tbody>
</table>

### Amount You Owe

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>Subtract line 33 from line 24. This is the amount you owe. For details on how to pay, go to <a href="http://www.irs.gov/Payments">www.irs.gov/Payments</a> or see instructions</td>
<td>37</td>
</tr>
<tr>
<td>38</td>
<td>Estimated tax penalty (see instructions)</td>
<td>38</td>
</tr>
</tbody>
</table>

### Third Party Designee

<table>
<thead>
<tr>
<th>Description</th>
<th>Instructions</th>
<th>Yes, Complete below</th>
<th>No</th>
</tr>
</thead>
</table>

### 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**

**John Michaels**

**Date** 3/15/23

**Your occupation** Minister

**Spouse’s signature. If a joint return, both must sign.**

**Susan Michaels**

**Date** 3/15/23

**Spouse’s occupation** Homemaker

**Phone no.**

**Email address**

### Paid Preparer Use Only

<table>
<thead>
<tr>
<th>Description</th>
<th>Instructions</th>
<th>Yes, Self-employed</th>
<th>No</th>
</tr>
</thead>
</table>

Go to www.irs.gov/Form1040 for instructions and the latest information.
## 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): ...................................................... 2b
3. Business income or (loss). Attach Schedule C ...................................................................................... 3
4. Other gains or (losses). Attach Form 4797 ............................................................................................. 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 .............................................................................................................. 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
   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. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 .... 10

For Paperwork Reduction Act Notice, see your tax return instructions.
### Part II Adjustments to Income

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

Schedule 1 (Form 1040) 2022
## Schedule 2 (Form 1040)

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

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

### Part I  Tax

<table>
<thead>
<tr>
<th>Tax Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Alternative minimum tax. Attach Form 6251</td>
<td>1</td>
</tr>
<tr>
<td>2 Excess advance premium tax credit repayment. Attach Form 8962</td>
<td>2</td>
</tr>
<tr>
<td>3 Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17</td>
<td>3</td>
</tr>
</tbody>
</table>

### Part II  Other Taxes

<table>
<thead>
<tr>
<th>Tax Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Self-employment tax. Attach Schedule SE</td>
<td>4</td>
</tr>
<tr>
<td>5 Social security and Medicare tax on unreported tip income. Attach Form 4137</td>
<td>5</td>
</tr>
<tr>
<td>6 Uncollected social security and Medicare tax on wages. Attach Form 8919</td>
<td>6</td>
</tr>
<tr>
<td>7 Total additional social security and Medicare tax. Add lines 5 and 6</td>
<td>7</td>
</tr>
<tr>
<td>8 Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required</td>
<td>8</td>
</tr>
<tr>
<td>If not required, check here</td>
<td></td>
</tr>
<tr>
<td>9 Household employment taxes. Attach Schedule H</td>
<td>9</td>
</tr>
<tr>
<td>10 Repayment of first-time homebuyer credit. Attach Form 5405 if required</td>
<td>10</td>
</tr>
<tr>
<td>11 Additional Medicare Tax. Attach Form 8959</td>
<td>11</td>
</tr>
<tr>
<td>12 Net investment income tax. Attach Form 8960</td>
<td>12</td>
</tr>
<tr>
<td>13 Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12</td>
<td>13</td>
</tr>
<tr>
<td>14 Interest on tax due on installment income from the sale of certain residential lots and timeshares</td>
<td>14</td>
</tr>
<tr>
<td>15 Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000</td>
<td>15</td>
</tr>
<tr>
<td>16 Recapture of low-income housing credit. Attach Form 8611</td>
<td>16</td>
</tr>
</tbody>
</table>

(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  Reserved for future use 19

20  Section 965 net tax liability installment from Form 965-A 20

21  Add lines 4, 7 through 16, and 18. 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

### Profit or Loss From Business

**Sole Proprietorship**


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

### Name of proprietor

**John E. Michaels**

**Social security number (SSN)**

011-00-1111

### Business address (including suite or room no.)

**1040 Main Street**

**City, town or post office, state, and ZIP code**

Hometown, Texas 77099

### Accounting method:

- [ ] Cash
- [ ] Accrual
- [ ] Other (specify)

### Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses.

- [ ] Yes
- [ ] No

### Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions.

- [ ] Yes
- [ ] No

## Part I Income

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross receipts. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the &quot;Statutory employee&quot; box on that form was checked.</td>
<td>4,000</td>
</tr>
<tr>
<td>2</td>
<td>Returns and allowances</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Subtract line 2 from line 1</td>
<td>4,000</td>
</tr>
<tr>
<td>4</td>
<td>Cost of goods sold (from line 42)</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td><strong>Gross profit.</strong> Subtract line 4 from line 3</td>
<td>4,000</td>
</tr>
<tr>
<td>6</td>
<td>Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td><strong>Gross income.</strong> Add lines 5 and 6</td>
<td>4,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Advertising</td>
<td>18</td>
</tr>
<tr>
<td>9</td>
<td>Car and truck expenses (see instructions)</td>
<td>188</td>
</tr>
<tr>
<td>10</td>
<td>Commissions and fees</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Contract labor (see instructions)</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Depletion</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Depreciation and section 179 expense deduction (not included in Part III) (see instructions)</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Employee benefit programs (other than on line 19)</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Insurance (other than health)</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Interest (see instructions):</td>
<td>16</td>
</tr>
<tr>
<td>a</td>
<td>Mortgage (paid to banks, etc.)</td>
<td>16a</td>
</tr>
<tr>
<td>b</td>
<td>Other</td>
<td>16b</td>
</tr>
<tr>
<td>17</td>
<td>Legal and professional services</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Office expense (see instructions)</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>Pension and profit-sharing plans</td>
<td>19</td>
</tr>
<tr>
<td>20</td>
<td>Rent or lease (see instructions)</td>
<td>20a</td>
</tr>
<tr>
<td>a</td>
<td>Vehicles, machinery, and equipment</td>
<td>20b</td>
</tr>
<tr>
<td>b</td>
<td>Other business property</td>
<td>20b</td>
</tr>
<tr>
<td>21</td>
<td>Repairs and maintenance</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Supplies (not included in Part III)</td>
<td>22</td>
</tr>
<tr>
<td>23</td>
<td>Taxes and licenses</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Travel and meals:</td>
<td>24a</td>
</tr>
<tr>
<td>a</td>
<td>Travel</td>
<td>24a</td>
</tr>
<tr>
<td>b</td>
<td>Deductible meals (see instructions)</td>
<td>24b</td>
</tr>
<tr>
<td>25</td>
<td>Utilities</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Wages (less employment credits)</td>
<td>26</td>
</tr>
<tr>
<td>27</td>
<td>Other expenses (from line 48)</td>
<td>27a</td>
</tr>
<tr>
<td>a</td>
<td>Other</td>
<td>27a</td>
</tr>
<tr>
<td>b</td>
<td>Reserved for future use</td>
<td>27b</td>
</tr>
<tr>
<td>28</td>
<td><strong>Total expenses</strong> before expenses for business use of home. Add lines 8 through 27a</td>
<td>253</td>
</tr>
<tr>
<td>29</td>
<td><strong>Tentative profit or (loss).</strong> Subtract line 28 from line 7</td>
<td>3,747</td>
</tr>
</tbody>
</table>

## 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.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td><strong>Net profit or (loss).</strong> Subtract line 30 from line 29.</td>
<td>3,747</td>
</tr>
<tr>
<td>31</td>
<td>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.</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>If you have a loss, check the box that describes your investment in this activity. See instructions.</td>
<td>32</td>
</tr>
</tbody>
</table>

### Additional Notes

- [ ] All investment is at risk.
- [ ] Some investment is not at risk.

**For Paperwork Reduction Act Notice, see the separate instructions.**
Part III  Cost of Goods Sold (see instructions)

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?  ☐ Yes  ☐ No

If "Yes," attach explanation.

35 Inventory at beginning of year. If different from last year’s closing inventory, attach explanation.

36 Purchases less cost of items withdrawn for personal use.

37 Cost of labor. Do not include any amounts paid to yourself.

38 Materials and supplies.

39 Other costs.

40 Add lines 35 through 39.

41 Inventory at end of year.

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4.

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)  7 / 15 / 13

44 Of the total number of miles you drove your vehicle during 2022, enter the number of miles you used your vehicle for:

a  Business  414

b  Commuting (see instructions)  0

c  Other  7,467

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 8–26 or line 30.

Marriage and family booklets.

Total other expenses. Enter here and on line 27a.

Schedule C (Form 1040) 2022
### Self-Employment Tax

**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.

<table>
<thead>
<tr>
<th>A</th>
<th>Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A</th>
<th>1a</th>
</tr>
</thead>
<tbody>
<tr>
<td>b</td>
<td>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 AH</td>
<td>1b</td>
</tr>
</tbody>
</table>

Skip lines 1a and 1b if you use the farm 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 |
| 3 | Combine lines 1a, 1b, and 2 | 3 |

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

| 5a | Enter your church employee income from Form W-2. See instructions for definition of church employee income | 5a |
| 5b | Multiply line 5a by 92.35% (0.9235). If less than $100, enter -0- | 5b |
| 6 | Add lines 4c and 5b | 6 |
| 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 2022 | 7 |

**Part II**  
**Optional Methods To Figure Net Earnings**

**Farm Optional Method.** You may use this method only if (a) your gross farm income wasn’t more than $9,060, or (b) your net farm profits were less than $6,540.

| 14 | Maximum income for optional methods | 14 |
| 15 | Enter the smaller of: two-thirds (2/3) of gross farm income (not less than zero) or $6,040. Also, include this amount on line 4b above | 15 |

**Nonfarm Optional Method.** You may use this method only if (a) your net nonfarm profits were less than $6,540 and also less than 72.189% of your gross nonfarm income, 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 (2/3) of gross nonfarm income (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.
**Form 8995**

**Qualified Business Income Deduction**

**Simplified Computation**

Attach to your tax return.

Go to [www.irs.gov/Form8995](http://www.irs.gov/Form8995) for instructions and the latest information.

**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 $170,050 ($340,100 if married filing jointly), and you aren’t a patron of an agricultural or horticultural cooperative.

<table>
<thead>
<tr>
<th></th>
<th>(a) Trade, business, or aggregation name</th>
<th>(b) Taxpayer identification number</th>
<th>(c) Qualified business income or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>John E. Michaels</td>
<td>011-00-1111</td>
<td>3,482</td>
</tr>
<tr>
<td>2</td>
<td>Total qualified business income or (loss). Combine lines 1i through 1v, column (c)</td>
<td>3,482</td>
<td>3,482</td>
</tr>
<tr>
<td>3</td>
<td>Qualified business net (loss) carryforward from the prior year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-</td>
<td>3,482</td>
<td>3,482</td>
</tr>
<tr>
<td>5</td>
<td>Qualified business income component. Multiply line 4 by 20% (0.20)</td>
<td>696</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-</td>
<td>21,978</td>
<td>21,978</td>
</tr>
<tr>
<td>9</td>
<td>REIT and PTP component. Multiply line 8 by 20% (0.20)</td>
<td>696</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Qualified business income deduction before the income limitation. Add lines 5 and 9</td>
<td>696</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Taxable income before qualified business income deduction (see instructions)</td>
<td>21,978</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Net capital gain (see instructions)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Subtract line 12 from line 11. If zero or less, enter -0-</td>
<td>21,978</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Income limitation. Multiply line 13 by 20% (0.20)</td>
<td>4,396</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>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)</td>
<td>696</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

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

Cat. No. 37806C

Form 8995 (2022)
### Credits for Qualifying Children and Other Dependents

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

**Go to [www.irs.gov/Schedule8812](http://www.irs.gov/Schedule8812) for instructions and the latest information.**

<table>
<thead>
<tr>
<th><strong>Part I</strong></th>
<th><strong>Child Tax Credit and Credit for Other Dependents</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Enter the amount from line 11 of your Form 1040, 1040-SR, or 1040-NR</td>
</tr>
<tr>
<td><strong>2a</strong></td>
<td>Enter income from Puerto Rico that you excluded</td>
</tr>
<tr>
<td><strong>2b</strong></td>
<td>Enter the amounts from lines 45 and 50 of your Form 2555</td>
</tr>
<tr>
<td><strong>2c</strong></td>
<td>Enter the amount from line 15 of your Form 4563</td>
</tr>
<tr>
<td><strong>2d</strong></td>
<td>Add lines 2a through 2c</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Add lines 1 and 2d</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Number of qualifying children under age 17 with the required social security number</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Multiply line 4 by $2,000</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Number of other dependents, including any qualifying children who are not under age 17 or who do not have the required social security number</td>
</tr>
<tr>
<td><strong>7</strong></td>
<td>Multiply line 6 by $500</td>
</tr>
<tr>
<td><strong>8</strong></td>
<td>Add lines 5 and 7</td>
</tr>
<tr>
<td><strong>9</strong></td>
<td>Enter the amount shown below for your filing status.</td>
</tr>
<tr>
<td></td>
<td>• Married filing jointly—$400,000</td>
</tr>
<tr>
<td></td>
<td>• All other filing statuses—$200,000</td>
</tr>
<tr>
<td><strong>10</strong></td>
<td>Subtract line 9 from line 3.</td>
</tr>
<tr>
<td></td>
<td>• If zero or less, enter -0-.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td><strong>11</strong></td>
<td>Multiply line 10 by 5% (0.05)</td>
</tr>
<tr>
<td><strong>12</strong></td>
<td>Is the amount on line 8 more than the amount on line 11?</td>
</tr>
<tr>
<td></td>
<td>□ No. STOP. You cannot take the child tax credit, credit for other dependents, or additional child tax credit. Skip Parts II-A and II-B. Enter -0- on lines 14 and 27.</td>
</tr>
<tr>
<td></td>
<td>□ Yes. Subtract line 11 from line 8. Enter the result.</td>
</tr>
<tr>
<td><strong>13</strong></td>
<td>Enter the amount from the Credit Limit Worksheet A</td>
</tr>
<tr>
<td><strong>14</strong></td>
<td>Enter the smaller of line 12 or 13. This is your child tax credit and credit for other dependents.</td>
</tr>
</tbody>
</table>

**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, 1040-SR, or 1040-NR through line 27 (also complete Schedule 3, line 11) before completing Part II-A.

For Paperwork Reduction Act Notice, see your tax return instructions.
### Part II-A  Additional Child Tax Credit for All Filers

**Caution:** If you file Form 2555, you cannot claim the additional child tax credit.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Check this box if you do not want to claim the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27.</td>
</tr>
<tr>
<td>16a</td>
<td>Subtract line 14 from line 12. If zero, stop here; you cannot take the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27.</td>
</tr>
<tr>
<td>16b</td>
<td>Number of qualifying children under 17 with the required social security number: $x \times $1,500. Enter the result. If zero, stop here; you cannot claim the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27.</td>
</tr>
<tr>
<td>17</td>
<td>Enter the smaller of line 16a or line 16b.</td>
</tr>
<tr>
<td>18a</td>
<td>Earned income (see instructions).</td>
</tr>
<tr>
<td>18b</td>
<td>Nontaxable combat pay (see instructions).</td>
</tr>
<tr>
<td>19</td>
<td>Is the amount on line 18a more than $2,500?</td>
</tr>
<tr>
<td></td>
<td>No. Leave line 19 blank and enter -0- on line 20.</td>
</tr>
<tr>
<td></td>
<td>Yes. Subtract $2,500 from the amount on line 18a. Enter the result.</td>
</tr>
<tr>
<td>20</td>
<td>Multiply the amount on line 19 by 15% (0.15) and enter the result.</td>
</tr>
<tr>
<td></td>
<td>Next. On line 16b, is the amount $4,500 or more?</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>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, see instructions. 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.</td>
</tr>
<tr>
<td>22</td>
<td>Add lines 21 and 22.</td>
</tr>
<tr>
<td>24</td>
<td>1040 and 1040-SR filers: Enter the total of the amounts from Form 1040 or 1040-SR, line 27, and Schedule 3 (Form 1040), line 11. 1040-NR filers: Enter the amount from Schedule 3 (Form 1040), line 11.</td>
</tr>
<tr>
<td>25</td>
<td>Subtract line 24 from line 23. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>26</td>
<td>Enter the larger of line 20 or line 25.</td>
</tr>
<tr>
<td></td>
<td>Next, enter the smaller of line 17 or line 26 on line 27.</td>
</tr>
</tbody>
</table>

### Part II-C  Additional Child Tax Credit

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>This is your additional child tax credit. Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 28.</td>
</tr>
</tbody>
</table>
Credit Limit Worksheet A

1. Enter the amount from line 18 of your Form 1040, 1040-SR, or 1040-NR.

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 6d
   - Schedule 3, line 6f
   - Schedule 3, line 6l
   - Form 5695, line 30

Enter the total.

3. Subtract line 2 from line 1.

Complete the Credit Limit Worksheet B only if you meet all of 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 the Credit Limit Worksheet B.

5. Subtract line 4 from line 3. Enter here and on Schedule 8812, line 13.
### Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are nondeductible.

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

#### Schedule C Deduction Computation

<table>
<thead>
<tr>
<th>Description</th>
<th>Taxable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business use of car</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miles before July 1, 2022 - 200 x 58.5¢</td>
<td>$ 117</td>
<td></td>
</tr>
<tr>
<td>Miles after June 30, 2022 - 214 x 62.5¢</td>
<td>$ 134</td>
<td></td>
</tr>
<tr>
<td>Total business use of car</td>
<td>$ 251</td>
<td></td>
</tr>
<tr>
<td>Minus: Nondeductible part of business use of car (25% x $251)</td>
<td>(63)</td>
<td></td>
</tr>
<tr>
<td>Total business use of car (Line 9)</td>
<td>$ 188</td>
<td></td>
</tr>
<tr>
<td>Marriage and family booklets</td>
<td>$ 87</td>
<td></td>
</tr>
<tr>
<td>Minus: Nondeductible part of marriage and family booklets (25% x $87)</td>
<td>(22)</td>
<td></td>
</tr>
<tr>
<td>Total marriage and family booklets (Line 27a)</td>
<td>$ 65</td>
<td></td>
</tr>
<tr>
<td>Schedule C deductions (Line 28)</td>
<td>$ 253</td>
<td></td>
</tr>
</tbody>
</table>

### Attachment 2. Attachment to Schedule SE (Form 1040)

<table>
<thead>
<tr>
<th>Description</th>
<th>Taxable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Church wages</td>
<td>$ 45,000</td>
<td></td>
</tr>
<tr>
<td>Parsonage allowance</td>
<td>$ 16,800</td>
<td></td>
</tr>
<tr>
<td>Net profit from Schedule C</td>
<td>$ 3,747</td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule C expenses allocable to tax-free income ($63 + $22)</td>
<td>$ 85</td>
<td></td>
</tr>
<tr>
<td>Ministerial employee unreimbursed business expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car expenses for church business:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miles before July 1, 2022 - 1,204 x 58.5¢</td>
<td>704</td>
<td></td>
</tr>
<tr>
<td>Miles after June 30, 2022 - 1,140 x 62.5¢</td>
<td>713</td>
<td></td>
</tr>
<tr>
<td>Publications and booklets</td>
<td>219</td>
<td>(1,721)</td>
</tr>
<tr>
<td>Net Self-Employment Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule SE, line 2</td>
<td>$ 63,826</td>
<td></td>
</tr>
</tbody>
</table>
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 2022, Rev. Green received $15,000 in annuity income, all of which was designated in advance by the Board of Pensions 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 2022, and his wife received $6,000. None of this income is taxable, however, because the Green’s income is not enough to expose their Social Security benefits to tax.

In 2022, Rev. Green received $2,000 from occasional guest preaching engagements. He incurred $511 in expenses as a result of these activities ($436 of travel expenses, and $75 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 2022.

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 the Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from the Board of Pensions

The Board of Pensions completed Form 1099-R for Rev. Green as follows:

Box 1. The $15,000 pension income Rev. Green receives from the Board of Pensions.

Box 2b. Taxable amount not determined. – The Board of Pensions 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)

Note, for 2019 and later tax years, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.

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 through 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 718 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 standard mileage rate for January 1, 2022 through June 30, 2022 of 58.5 cents by the 310 miles driven before July 1, 2022, and multiplied the standard mileage rate for July 1, 2022 through December 31, 2022 of 62.5 cents by the 408 miles driven after June 30, 2022. He calculated total mileage expenses of
$436. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage 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 $75 in business meal expenses in connection with meals purchased at restaurants while traveling to guest preaching engagements. Since the meals were purchased at a restaurant, Rev. Green is allowed to deduct 100% of his business-related meal expenses in 2022. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage 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 parsonage allowance ($105 + $18) on line 28.

Line 29 through 31. He enters his tentative profit of $1,877 on line 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 through 47b. Rev. Green fills out these lines to report information about his car.

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

Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

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 SE 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 (see Attachment 2, later) that calculates his net profit of $1,489 and he enters that amount here.

Line 4a through Line 6. He multiplies the $1,489 by .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 $147,000, so Rev. Michaels multiplies the amount on line 6 ($1,375) by .124 to get his self-employment Social Security tax of $171.

Line 11. He multiplies the amount on line 6 by .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. Michaels enters that amount here and on Schedule 2 (Form 1040), line 4.
Line 13. Rev. Michaels multiplies the amount on line 12 by .50 to get his deduction for the employer-equivalent portion of self-employed tax of $106. He enters that amount here and on Schedule 1 (Form 1040), line 15.

Turbo Tax 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”.

Qualified Business Income Deduction (Form 8995)
Ministers who have net profit reported on Schedule C for ministerial services and who have 2022 taxable income less than $170,050 ($340,100 if married filing jointly) 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 qualified business income deduction is $0 (see completion of Form 1040 section below), the Greens are not eligible for such a deduction in 2022.

Form 1040, Schedule 1 (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 through 3 to the extent required.

For 2022, individuals born before January 2, 1958 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, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1958. 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 and the fair rental value of his home, including furniture and utilities) as computed on Attachment 1 (shown later) on line 5b.

Form 1040, Line 6a and 6b. Since none of Rev. Green’s Social Security benefits are taxable, he 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 the on Form 1040, line 8, and enters the total ($3,877) on line 9.

Form 1040, Line 10 and Line 11. Because Rev. Green has reported deductible self-employment tax 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 adjusted gross income of $3,771 on Line 11.

Form 1040, Line 12. Rev. Green enters his standard deduction of $28,700 (which takes into consideration the fact he and his wife were born before January 2, 1958) on line 12.

Form 1040, Line 14. Since there is no amount listed for qualified business income deduction on line 13, Rev Green reports $28,700 on line 14.

Form 1040, 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 21, and on Form 1040, line 23.

Form 1040, Line 25a through 33. Rev. Green did not have any income tax withheld from his pension, and did not have any other amounts to report on lines 25a through line 33.

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

**Turbo Tax 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. The taxpayer can manually enter the taxable amount by choosing the “General Rule” and entering the amount determined at Attachment 1 in the field.
**Form 1099-R**

**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**

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.

<table>
<thead>
<tr>
<th>Column</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross distribution</td>
<td>$15000.00</td>
</tr>
<tr>
<td>2a</td>
<td>Taxable amount</td>
<td>$</td>
</tr>
<tr>
<td>2b</td>
<td>Taxable amount not determined</td>
<td>☐</td>
</tr>
<tr>
<td>3</td>
<td>Capital gain (included in box 2a)</td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td>Federal income tax withheld</td>
<td>$</td>
</tr>
<tr>
<td>5</td>
<td>Employee contributions/Designated Roth contributions or insurance premiums</td>
<td>$</td>
</tr>
<tr>
<td>6</td>
<td>Net unrealized appreciation in employer’s securities</td>
<td>$</td>
</tr>
<tr>
<td>7</td>
<td>Distribution code(s)</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Other</td>
<td>$</td>
</tr>
<tr>
<td>9a</td>
<td>Your percentage of total distribution</td>
<td>%</td>
</tr>
<tr>
<td>9b</td>
<td>Total employee contributions</td>
<td>$</td>
</tr>
<tr>
<td>10</td>
<td>Amount allocable to IRR within 5 years</td>
<td>$</td>
</tr>
<tr>
<td>11</td>
<td>1st year of design. Roth contrib.</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Date of payment</td>
<td>$</td>
</tr>
<tr>
<td>14</td>
<td>State tax withheld</td>
<td>$</td>
</tr>
<tr>
<td>15</td>
<td>State/Payer’s state no.</td>
<td>$</td>
</tr>
<tr>
<td>16</td>
<td>State distribution</td>
<td>$</td>
</tr>
<tr>
<td>17</td>
<td>Local tax withheld</td>
<td>$</td>
</tr>
<tr>
<td>18</td>
<td>Name of locality</td>
<td>$</td>
</tr>
<tr>
<td>19</td>
<td>Local distribution</td>
<td>$</td>
</tr>
</tbody>
</table>

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
The Board of Pensions of the Presbyterian Church (USA)
2000 Market Street
Philadelphia, PA 19103-3298
1-800-773-7752

RECIPIENT’S name
William K. Green

Street address (including apt. no.)
787 Adams Street
Anytown, NY 10002

City or town, state or province, country, and ZIP or foreign postal code

Account number (see instructions)

Form 1099-R www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service
### Form 1040

#### Department of the Treasury—Internal Revenue Service

#### U.S. Individual Income Tax Return 2022

**OMB No. 1545-0074**

**IRS Use Only—Do not write or staple in this space.**

**Filing Status**
- ☐ Single
- ☑ Married filing jointly
- ☐ Married filing separately (MFS)
- ☐ Head of household (HOH)
- ☐ Qualifying surviving spouse (QSS)

Check only one box.

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial: William K.

Last name: Green

Social security number: 2 0 2 1 2 0 0 2

Spouse's name: Sarah J.

Social security number: 3 0 3 1 3 0 3 3

Home address (number and street). If you have a P.O. box, see instructions.

787 Adams Street

City, town, or post office. If you have a foreign address, also complete spaces below.

Apt. no.

State: New York

ZIP code: 10002

**Foreign country name**

**Foreign province/state/county**

**Foreign postal code**

**Digital Assets**

At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.)

☐ Yes   ☑ No

**Standard Deduction**

Someone can claim: ☐ You as a dependent   ☐ Your spouse as a dependent

Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness**

You: ☑ Were born before January 2, 1958   ☐ Are blind

Spouse: ☑ Was born before January 2, 1958   ☐ Is blind

**Dependants**

(see instructions):

<table>
<thead>
<tr>
<th>(1) First name</th>
<th>(2) Social security number</th>
<th>(3) Relationship to you</th>
<th>(4) Check the box if qualifies for (see instructions):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Child tax credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit for other dependents</td>
</tr>
</tbody>
</table>

**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.

1a Total amount from Form(s) W-2, box 1 (see instructions) ........................................... 1a

b Household employee wages not reported on Form(s) W-2 ...................................................... b

c Tip income not reported on line 1a (see instructions) ......................................................... c

d Medicaid waiver payments not reported on Form(s) W-2 (see instructions) .............................. d

e Taxable dependent care benefits from Form 2441, line 26 ....................................................... e

f Employer-provided adoption benefits from Form 8839, line 29 ............................................. f

g Wages from Form 8919, line 6 ........................................................................................................ g

h Other earned income (see instructions) ......................................................................................... h

i Nontaxable combat pay election (see instructions) ........................................................................ i

z Add lines 1a through 1h .................................................................................................................. z

2a Tax-exempt interest ....................................................................................................................... 2a

3a Qualified dividends ....................................................................................................................... 3a

4a IRA distributions ........................................................................................................................... 4a

5a Pensions and annuities .................................................................................................................. 5a

6a Social security benefits ................................................................................................................ 6a

If you elect to use the lump-sum election method, check here (see instructions) ☐

7 Capital gain or (loss). Attach Schedule D if required. If not required, check here ......................... 7

8 Other income from Schedule 1, line 10 .......................................................................................... 8

9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income ........................................... 9

10 Adjustments to income from Schedule 1, line 26 ....................................................................... 10

11 Subtract line 10 from line 9. This is your adjusted gross income ............................................ 11

12 Standard deduction or itemized deductions (from Schedule A) .................................................. 12

13 Qualified business income deduction from Form 8995 or Form 8995-A ................................... 13

14 Add lines 12 and 13 ....................................................................................................................... 14

15 Subtract line 14 from line 11. If zero or less, enter <0>. This is your taxable income ................. 15

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

Cat. No. 11320B

Form 1040 (2022)
<table>
<thead>
<tr>
<th>Form 1040 (2022)</th>
<th>Page 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax and Credits</strong></td>
<td></td>
</tr>
<tr>
<td>16 Tax (see instructions). Check if any from Form(s): 1 8814 2 4972 3</td>
<td></td>
</tr>
<tr>
<td>17 Amount from Schedule 2, line 3</td>
<td></td>
</tr>
<tr>
<td>18 Add lines 16 and 17</td>
<td></td>
</tr>
<tr>
<td>19 Child tax credit or credit for other dependents from Schedule 8812</td>
<td></td>
</tr>
<tr>
<td>20 Amount from Schedule 3, line 8</td>
<td></td>
</tr>
<tr>
<td>21 Add lines 19 and 20</td>
<td></td>
</tr>
<tr>
<td>22 Subtract line 21 from line 18. If zero or less, enter -0-</td>
<td>0</td>
</tr>
<tr>
<td>23 Other taxes, including self-employment tax, from Schedule 2, line 21</td>
<td>23</td>
</tr>
<tr>
<td>24 Add lines 22 and 23. This is your total tax</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>25 Federal income tax withheld from:</td>
<td></td>
</tr>
<tr>
<td>a Form(s) W-2</td>
<td>25a</td>
</tr>
<tr>
<td>b Form(s) 1099</td>
<td>25b</td>
</tr>
<tr>
<td>c Other forms (see instructions)</td>
<td>25c</td>
</tr>
<tr>
<td>d Add lines 25a through 25c</td>
<td></td>
</tr>
<tr>
<td>26 2022 estimated tax payments and amount applied from 2021 return</td>
<td>26</td>
</tr>
<tr>
<td>27 Earned income credit (EIC)</td>
<td>27</td>
</tr>
<tr>
<td>28 Additional child tax credit from Schedule 8812</td>
<td>28</td>
</tr>
<tr>
<td>29 American opportunity credit from Form 8838, line 8</td>
<td>29</td>
</tr>
<tr>
<td>30 Reserved for future use</td>
<td>30</td>
</tr>
<tr>
<td>31 Amount from Schedule 3, line 15</td>
<td>31</td>
</tr>
<tr>
<td>32 Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits</td>
<td>32</td>
</tr>
<tr>
<td>33 Add lines 25d, 26, and 32. These are your total payments</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Refund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid</td>
<td></td>
</tr>
<tr>
<td>35a Amount of line 34 you want refunded to you. If Form 8888 is attached, check here</td>
<td></td>
</tr>
<tr>
<td>b Routing number</td>
<td></td>
</tr>
<tr>
<td>c Type: □ Checking □ Savings</td>
<td></td>
</tr>
<tr>
<td>d Account number</td>
<td></td>
</tr>
<tr>
<td>36 Amount of line 34 you want applied to your 2023 estimated tax</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount You Owe</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>37 Subtract line 33 from line 24. This is the amount you owe.</td>
<td>37</td>
</tr>
<tr>
<td>For details on how to pay, go to <a href="http://www.irs.gov/Payments">www.irs.gov/Payments</a> or see instructions</td>
<td></td>
</tr>
<tr>
<td>38 Estimated tax penalty (see instructions)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Third Party Designee</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you want to allow another person to discuss this return with the IRS? See instructions</td>
<td></td>
</tr>
<tr>
<td>□ Yes, complete below. □ No</td>
<td></td>
</tr>
<tr>
<td>Designee's name</td>
<td></td>
</tr>
<tr>
<td>Phone no.</td>
<td></td>
</tr>
<tr>
<td>Personal identification number (PIN)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sign Here</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under penalties of perjury, I declare that I have examined this return and instructions. They are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.</td>
<td></td>
</tr>
<tr>
<td>Your signature</td>
<td>3/15/23</td>
</tr>
<tr>
<td>Your occupation</td>
<td>Retired Minister</td>
</tr>
<tr>
<td>If the IRS sent you an Identity Protection PIN, enter it here (see inst.)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Joint return? See instructions. Keep a copy for your records.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouse's signature. If a joint return, both must sign.</td>
<td>3/15/23</td>
</tr>
<tr>
<td>Spouse's occupation</td>
<td>Retired</td>
</tr>
<tr>
<td>If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paid Preparer Use Only</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparer's name</td>
<td></td>
</tr>
<tr>
<td>Preparer's signature</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>PTIN</td>
</tr>
<tr>
<td>Firm's name</td>
<td></td>
</tr>
<tr>
<td>Firm's address</td>
<td></td>
</tr>
</tbody>
</table>

Go to www.irs.gov/Form1040 for instructions and the latest information.
### Part I  Additional Income

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td>1</td>
</tr>
<tr>
<td>2a</td>
<td>Alimony received</td>
<td>2a</td>
</tr>
<tr>
<td>b</td>
<td>Date of original divorce or separation agreement (see instructions):</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Business income or (loss). Attach Schedule C</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Other gains or (losses). Attach Form 4797</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Farm income or (loss). Attach Schedule F</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Unemployment compensation</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Other income:</td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Net operating loss</td>
<td>8a</td>
</tr>
<tr>
<td>b</td>
<td>Gambling</td>
<td>8b</td>
</tr>
<tr>
<td>c</td>
<td>Cancellation of debt</td>
<td>8c</td>
</tr>
<tr>
<td>d</td>
<td>Foreign earned income exclusion from Form 2555</td>
<td>8d</td>
</tr>
<tr>
<td>e</td>
<td>Income from Form 8853</td>
<td>8e</td>
</tr>
<tr>
<td>f</td>
<td>Income from Form 8889</td>
<td>8f</td>
</tr>
<tr>
<td>g</td>
<td>Alaska Permanent Fund dividends</td>
<td>8g</td>
</tr>
<tr>
<td>h</td>
<td>Jury duty pay</td>
<td>8h</td>
</tr>
<tr>
<td>i</td>
<td>Prizes and awards</td>
<td>8i</td>
</tr>
<tr>
<td>j</td>
<td>Activity not engaged in for profit income</td>
<td>8j</td>
</tr>
<tr>
<td>k</td>
<td>Stock options</td>
<td>8k</td>
</tr>
<tr>
<td>l</td>
<td>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</td>
<td>8l</td>
</tr>
<tr>
<td>m</td>
<td>Olympic and Paralympic medals and USOC prize money (see instructions)</td>
<td>8m</td>
</tr>
<tr>
<td>n</td>
<td>Section 951(a) inclusion (see instructions)</td>
<td>8n</td>
</tr>
<tr>
<td>o</td>
<td>Section 951A(a) inclusion (see instructions)</td>
<td>8o</td>
</tr>
<tr>
<td>p</td>
<td>Section 461(l) excess business loss adjustment</td>
<td>8p</td>
</tr>
<tr>
<td>q</td>
<td>Taxable distributions from an ABLE account (see instructions)</td>
<td>8q</td>
</tr>
<tr>
<td>r</td>
<td>Scholarship and fellowship grants not reported on Form W-2</td>
<td>8r</td>
</tr>
<tr>
<td>s</td>
<td>Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d</td>
<td>8s</td>
</tr>
<tr>
<td>t</td>
<td>Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan</td>
<td>8t</td>
</tr>
<tr>
<td>u</td>
<td>Wages earned while incarcerated</td>
<td>8u</td>
</tr>
<tr>
<td>z</td>
<td>Other income. List type and amount:</td>
<td>8z</td>
</tr>
<tr>
<td>9</td>
<td>Total other income. Add lines 8a through 8z</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8</td>
<td>10</td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions.
### Schedule 1 (Form 1040) 2022

#### Part II Adjustments to Income

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

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

**Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.**

<table>
<thead>
<tr>
<th>Part I</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alternative minimum tax. Attach Form 6251</td>
</tr>
<tr>
<td>2</td>
<td>Excess advance premium tax credit repayment. Attach Form 8962</td>
</tr>
<tr>
<td>3</td>
<td>Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part II</th>
<th>Other Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Self-employment tax. Attach Schedule SE</td>
</tr>
<tr>
<td>5</td>
<td>Social security and Medicare tax on unreported tip income. Attach Form 4137</td>
</tr>
<tr>
<td>6</td>
<td>Uncollected social security and Medicare tax on wages. Attach Form 8919</td>
</tr>
<tr>
<td>7</td>
<td>Total additional social security and Medicare tax. Add lines 5 and 6</td>
</tr>
<tr>
<td>8</td>
<td>Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here</td>
</tr>
<tr>
<td>9</td>
<td>Household employment taxes. Attach Schedule H</td>
</tr>
<tr>
<td>10</td>
<td>Repayment of first-time homebuyer credit. Attach Form 5405 if required</td>
</tr>
<tr>
<td>11</td>
<td>Additional Medicare Tax. Attach Form 8959</td>
</tr>
<tr>
<td>12</td>
<td>Net investment income tax. Attach Form 8960</td>
</tr>
<tr>
<td>13</td>
<td>Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12</td>
</tr>
<tr>
<td>14</td>
<td>Interest on tax due on installment income from the sale of certain residential lots and timeshares</td>
</tr>
<tr>
<td>15</td>
<td>Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000</td>
</tr>
<tr>
<td>16</td>
<td>Recapture of low-income housing credit. Attach Form 8611</td>
</tr>
</tbody>
</table>

*(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  Reserved for future use 19
20  Section 965 net tax liability installment from Form 965-A 20
21  Add lines 4, 7 through 16, and 18. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b 21
### 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.  
2. Returns and allowances.  
3. Subtract line 2 from line 1.  
4. Cost of goods sold (from line 42).  
5. Gross profit. Subtract line 4 from line 3.  
6. Other income, including federal and state gasoline or fuel tax credit or refund (see instructions).  

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

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Advertising</td>
<td>$105</td>
</tr>
<tr>
<td>9</td>
<td>Car and truck expenses (see instructions)</td>
<td>$2,000</td>
</tr>
<tr>
<td>10</td>
<td>Commissions and fees</td>
<td>$4</td>
</tr>
<tr>
<td>11</td>
<td>Contract labor (see instructions)</td>
<td>$21</td>
</tr>
<tr>
<td>12</td>
<td>Depletion</td>
<td>$22</td>
</tr>
<tr>
<td>13</td>
<td>Depreciation and section 179 expense deduction</td>
<td>$23</td>
</tr>
<tr>
<td>14</td>
<td>Employee benefit programs (other than on line 19)</td>
<td>$24a</td>
</tr>
<tr>
<td>15</td>
<td>Insurance (other than health)</td>
<td>$18</td>
</tr>
<tr>
<td>16</td>
<td>Interest (see instructions):</td>
<td>$25</td>
</tr>
<tr>
<td>17</td>
<td>Legal and professional services</td>
<td>$27b</td>
</tr>
<tr>
<td>18</td>
<td>Office expense (see instructions)</td>
<td>$4</td>
</tr>
<tr>
<td>19</td>
<td>Pension and profit-sharing plans</td>
<td>$20a</td>
</tr>
<tr>
<td>20</td>
<td>Rent or lease (see instructions):</td>
<td>$20b</td>
</tr>
<tr>
<td>21</td>
<td>Repairs and maintenance</td>
<td>$21</td>
</tr>
<tr>
<td>22</td>
<td>Supplies (not included in Part III)</td>
<td>$22</td>
</tr>
<tr>
<td>23</td>
<td>Taxes and licenses</td>
<td>$23</td>
</tr>
<tr>
<td>24</td>
<td>Travel and meals</td>
<td>$24a</td>
</tr>
<tr>
<td>25</td>
<td>Utilities</td>
<td>$18b</td>
</tr>
<tr>
<td>26</td>
<td>Wages (less employment credits)</td>
<td>$25</td>
</tr>
<tr>
<td>27a</td>
<td>Other expenses (from line 48)</td>
<td>$27a</td>
</tr>
</tbody>
</table>

#### Total expenses before expenses for business use of home. Add lines 8 through 27a.  
28. $123

#### Tentative profit or (loss). Subtract line 28 from line 7.  
29. $1,877

#### 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: _________. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30.  
30. $0

#### Net profit or (loss). Subtract line 30 from line 29.  
31. $1,877

- **Net profit or (loss).**
- **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.**

#### 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.**
### Part III  Cost of Goods Sold (see instructions)

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  

36 Purchases less cost of items withdrawn for personal use  

37 Cost of labor. Do not include any amounts paid to yourself  

38 Materials and supplies  

39 Other costs  

40 Add lines 35 through 39  

41 Inventory at end of year  

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4.

### 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)  

44 Of the total number of miles you drove your vehicle during 2022, enter the number of miles you used your vehicle for:

   a Business  
   b Commuting (see instructions)  
   c Other

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 8–26 or line 30.

48 Total other expenses. Enter here and on line 27a
**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.

1b 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 AH.

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.

3 Combine lines 1a, 1b, and 2.

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.

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

4c 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.

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

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

6 Add lines 4a and 5b.

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 2022.

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 $147,000 or more, skip lines 8b through 10, and go to line 11.

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

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

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

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

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

11 Multiply line 6 by 2.9% (0.029).

12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4.

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.

---

**Part II Optional Methods To Figure Net Earnings**

(Farm Optional Method) You may use this method only if (a) your gross farm income¹ wasn't more than $9,060, or (b) your net farm profits² were less than $6,540.

14 Maximum income for optional methods.

15 Enter the smaller of: two-thirds (⅔) of gross farm income¹ (not less than zero) or $6,040. Also, include this amount on line 4b above.

(Nonnearm Optional Method) You may use this method only if (a) your net nonfarm profits³ were less than $6,540 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.

17 Enter the smaller of: two-thirds (⅔) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above.

---

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 nondeductible.

<table>
<thead>
<tr>
<th>% of Nondeductible Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parsonage allowance:</td>
</tr>
<tr>
<td>Ministerial retirement benefits designated as housing allowance $15,000</td>
</tr>
<tr>
<td>Actual expenses $13,000</td>
</tr>
<tr>
<td>Fair rental value of home (including furnishings and utilities) ($1,200 x 12) $14,400</td>
</tr>
<tr>
<td>Taxable portion of allowance (excess of amount designated &amp; paid over lesser of actual expenses or fair rental value) $2,000</td>
</tr>
<tr>
<td>Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value) 13,000</td>
</tr>
<tr>
<td>Gross income from occasional guest preaching engagements 2,000</td>
</tr>
<tr>
<td>% of nondeductible expenses: $13,000/$17,000 = 76%</td>
</tr>
</tbody>
</table>

Schedule C Deduction Computation

<table>
<thead>
<tr>
<th>Business use of car:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miles before July 1, 2022 - 310 x 58.5¢ $181</td>
</tr>
<tr>
<td>Miles after June 30, 2022 - 408 x 62.5¢ $255</td>
</tr>
<tr>
<td>Total business use of car $436</td>
</tr>
<tr>
<td>Minus: Nondeductible part of business use of car (76% x $436) (331)</td>
</tr>
<tr>
<td>Total business use of car (Line 9) $105</td>
</tr>
<tr>
<td>Meal expenses $75</td>
</tr>
<tr>
<td>Minus: Nondeductible part of meals &amp; entertainment (76% x $75) (57)</td>
</tr>
<tr>
<td>Total meal expenses (Line 24b) $18</td>
</tr>
<tr>
<td>Schedule C deductions, Line 28 $123</td>
</tr>
</tbody>
</table>

None of the other deductions claimed in the return are allocable to tax-free income.

Attachment 2. Computation of Net Earnings from Self-Employment

<table>
<thead>
<tr>
<th>Computation for Schedule SE (Form 1040)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit from Schedule C $1,877</td>
</tr>
<tr>
<td>Less:</td>
</tr>
<tr>
<td>Schedule C expenses allocable to tax-free income ($331 + $57) (388)</td>
</tr>
<tr>
<td>Net Self-Employment Income Schedule SE, line 2 $1,489</td>
</tr>
</tbody>
</table>