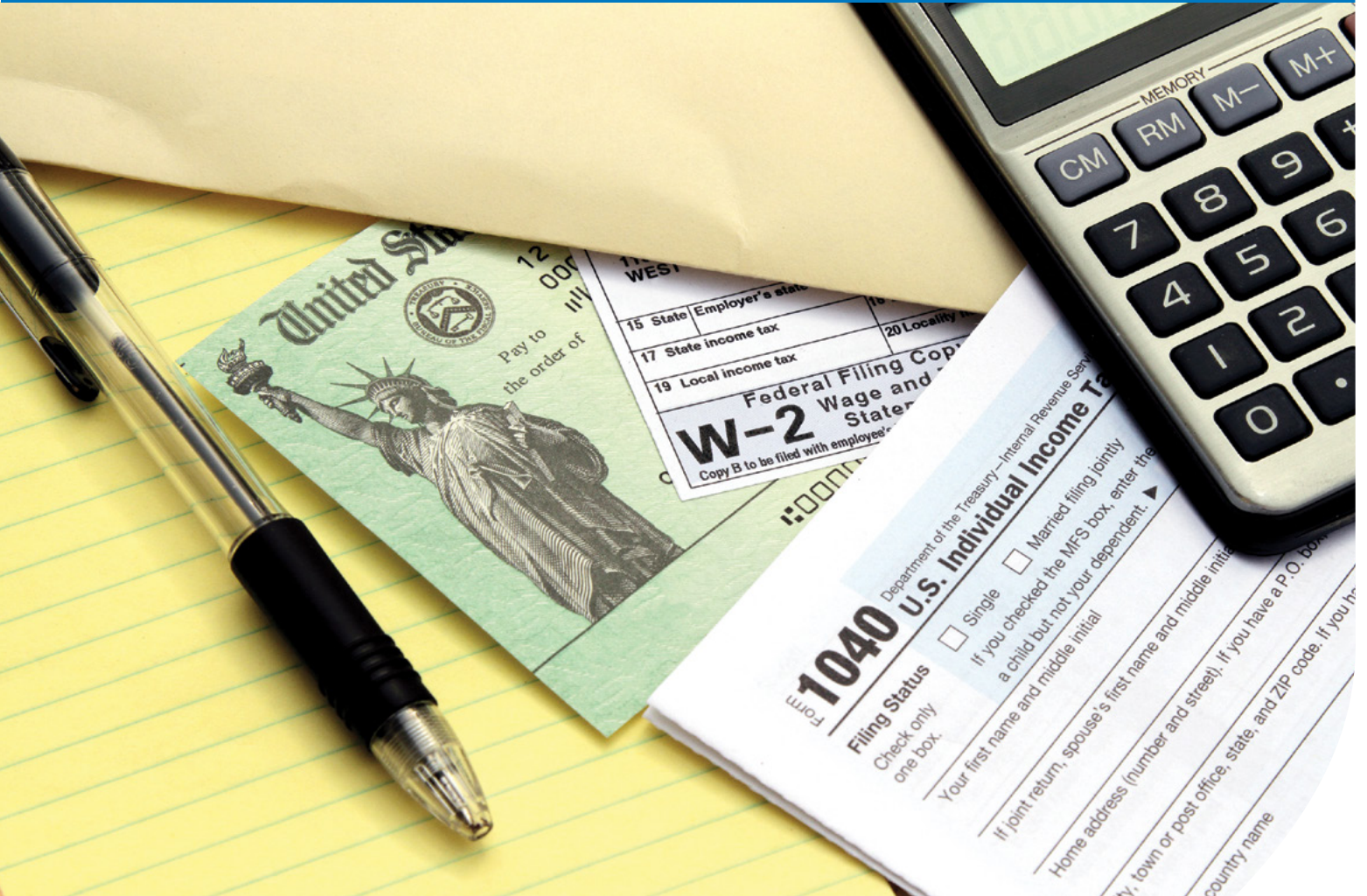


2026 Clergy Tax Return Preparation Guide for 2025 Tax Returns



A Supplement to the 2026 Clergy Tax Return Preparation Guide for 2025 Returns

For the 2025 tax year, the Church Pension Group (CPG) is providing the *2026 Clergy Tax Return Preparation Guide for 2025 Returns* (Tax Guide) and the *2026 Federal Reporting Requirements* guide (FRR) as references to help clergy, treasurers and bookkeepers, and tax preparers better understand clergy taxes. They are not intended as a substitute for professional advice, such as legal, accounting, or other expert guidance.

This supplement complements the Tax Guide with questions and answers on key tax issues specific to clergy of The Episcopal Church and participants in The Church Pension Fund Clergy Pension Plan.

Note: If you have questions about clergy federal income taxes that are not covered here, please call CPG's tax hotline:

- Michele Racusin, CPA, 833-270-0795
- Dolly Rios, CPA, 833-363-5751 Fluent in English and Spanish

Please note that the service provided by CPG's tax hotline 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.

Questions & Answers

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.”

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 (Clergy Pension Plan) does not necessarily qualify a clergyperson for clergy tax treatment because the Clergy Pension Plan uses a different standard than the IRS criteria. 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.

Q3. *How can I change my withholding amount when receiving my pension benefit in retirement?*

A3. You can submit federal Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments; Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions; and state tax withholding forms, available on CPG’s [Tax Resources](#) webpage.

Q4. *How should I report business expenses and/or declare a housing allowance for interim cures in out-of-town locations?*

A4. 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 may also be 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.

In this situation, where the interim housing is considered the principal residence, the clergy person may claim a housing allowance for any unreimbursed housing expenses.

Q5. *What rules apply to contributions to and withdrawals from The Episcopal Church Retirement Savings Plan (RSVP)?*

A5. The RSVP is a Code Section 403(b) defined contribution plan that may be funded by an individual through payroll deductions from remuneration received for services provided to the Church and/or employer contributions. Contributions by the clergy person can be made only from remuneration that is reported as taxable compensation (i.e., earnings that have not been applied toward the housing allowance).

- Withdrawals from the RSVP, if from past ministerial services and not from rollovers from accounts funded by payments from secular services, may be eligible to be excluded from taxable income as housing allowance. **Please work with your tax preparer to calculate and determine how much of your distribution is eligible.**

Please see the [RSVP & Lay DC Plan Employee Guide](#) for more information about contributions, withdrawals, and the clergy housing allowance.

Q6. *Is the Resettlement Benefit payable to eligible clergy under The Church Pension Fund Clergy Pension Plan taxable?*

A6. If the Resettlement Benefit is distributed to the clergy person, it is a taxable benefit. However, the distributions may be eligible to be designated as housing allowance. Please review [IRS Publication 517](#).

To delay paying tax on the Resettlement Benefit, you can make a tax-free rollover of the Resettlement Benefit to The Episcopal Church Retirement Savings Plan (RSVP) or another tax-deferred savings vehicle. If a clergy rolls over the resettlement benefit to a Code Section 403(b) plan, the rollover does not count toward the IRS annual contribution limits.

Q7. *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?*

A7. 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. A decision to opt out of Social Security is irrevocable.

Q8. *Why is my compensation reported to the Social Security Administration (SSA) different from the amount reported as compensation for pension assessment?*

A8. Compensation reported to SSA comes from Schedule SE, *Self-Employment Tax*, 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 Schedule SE filed with your annual income tax return.

The content of this supplement reflects information available as of the date of publication of the 2026 Clergy Tax Return Preparation Guide for 2025 Returns by Richard R. Hammar and Elaine Sommerville. Please consult with your tax professional to stay abreast of any changes after this date.

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Clergy Housing Allowance and Federal Income Tax Status of The Church Pension Fund Benefits

In accordance with Section 107 of the Internal Revenue Code, ministers who receive an amount, as part of their salary for their services, that has been officially designated (in advance of payment) as a housing allowance may be able to exclude that amount from their gross income for federal income tax purposes.

Resolution

The Church Pension Fund (CPF) has passed a resolution that all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy have been designated as a housing allowance in 2025. (CPF passed a similar resolution for 2024.)

Exclusion

The amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lowest amount of the following:

- actual housing expenses (the total amount you actually spend in a calendar year for items that directly relate to renting or providing for your primary home),
- the fair rental value of your primary home (including furnishings) plus the cost of the utilities,
- your retirement and disability income provided by CPF plus any other compensation earned from an Episcopal employer that has been properly designated as a housing allowance.

For Surviving Spouses and Children

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them. **Tax law does not allow a housing allowance for surviving spouses or dependents.**

How to Calculate

While further details are available in *IRS Publication 517* and the *2025 Clergy Tax Return Preparation Guide for 2024 Returns*, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

- Mortgage payments, both principal and interest*
- Real estate taxes and special assessments*
- Fees paid for acquiring home titles, mortgages, etc.
- Home improvements and repairs
- Cost of moving your home furnishings
- Home furnishings that are primary and essential
- Fire and home liability insurance premiums
- Maintenance and upkeep of property, including landscaping
- Utilities: electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rental payments for home, garage, storage for household items, furnishings, etc.

Importance of Records

We strongly recommend that you carefully track your expenses and keep good records, including this form and all of your calculations and documents related to renting or providing your primary home. You may need them if there are questions or challenges to your housing allowance.

How to Report

The amount you decide to exclude from your gross income is not shown on your federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 5a of your federal Form 1040. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 5b of your federal Form 1040. Line 5b should not be left blank; if all amounts received are used for housing purposes, you should enter zero (0) on Line 5b.

Please note that you may receive Form 1099-R and/or Form W-2 from Northern Trust and/or Aflac, as they are the paying agents for the retirement benefit and disability plans sponsored by CPF.

If you receive distributions from The Episcopal Church Retirement Savings Plan (RSVP), you may receive Form 1099-R from Fidelity Investments and/or Forrest T. Jones, as they are the paying agents for that plan.

For distributions from the RSVP processed by Fidelity Investments, please contact Fidelity to initiate the distribution and notify Fidelity that your distribution is eligible for the housing allowance.

SECA Tax

Distributions from a CPF sponsored plan received by clergy on account of retirement may be exempt from Self-Employed Contributions Act tax (also called SECA tax). What counts as “retirement” depends on a cleric’s individual circumstances. Please consult your tax advisor to discuss your specific situation. However, if you have other earnings from self-employment after retirement (from The Episcopal Church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Questions?

If you have questions about specific retirement and disability benefits that you receive from plans sponsored by CPF, please contact Client Services at (866) 802-6333, Monday to Friday, 8:30 AM to 8:00 PM ET.

Please note that we cannot advise on personal tax matters. If you require legal, accounting, or other expert assistance in connection with your tax returns, you should seek the services of a professional. For general questions concerning clergy taxes, please contact:

- Michele Racusin, CPA, 833-270-0795
- Dolly Rios, CPA, 833-363-5751 Fluent in English and Spanish

**Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments (up to \$10,000) are allowable as itemized deductions from gross income on Schedule A of Form 1040.*

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2026 Clergy Tax Return Preparation Guide for 2025 Returns

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Form W-2 from Church

Form W-2 from College

Form 1040

Schedule 1

Schedule 2

Schedule A

Schedule C

Schedule SE

Form 8995

Tax return attachments

Example Two: Retired Minister

Form 1099R from the Board of Pensions

Form 1040

Schedule 1

Schedule 2

Schedule C

Schedule SE

Tax return attachments

PART 1

INTRODUCTION

All references in this publication to line numbers on Internal Revenue Service (IRS) forms are for the “draft” versions of the 2025 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 2025 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource—the “2026 Federal Reporting Requirements for Churches”—helps churches comply with *their federal tax reporting requirements throughout 2026*.

The updated [Church & Clergy Tax Guide](#) available on ChurchLawAndTax.com provides churches and clergy with comprehensive, detailed information for year-round tax questions and compliance.

This guide is divided into the following sections:

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

Part 2: Special Rules for Ministers—In this part, 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 part explains how to complete the most common tax forms and schedules for ministers.

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

The “2026 Federal Reporting Requirements for Churches”—The companion resource assists churches (especially treasurers and bookkeepers) with filing federal tax forms and meeting other tax compliance requirements throughout the year.

Tax highlights for 2025

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

Changes affecting 2025 and future tax years:

- A temporary deduction for tax years 2025 through 2028 is available for seniors (ages 65 or older) of \$6,000 per eligible filer, regardless of whether they are itemizers or non-itemizers. The deduction is available to taxpayers with a modified adjusted gross income that does not exceed \$75,000 for single filers (\$150,000 for a joint return).
- The itemized deduction for state and local taxes now caps at \$40,000 for 2026 for taxpayers with modified adjusted gross incomes of \$500,000 or less. The cap also increases by 1 percent each subsequent year through 2029. The cap remains \$10,000 for taxpayers with modified adjusted gross incomes over \$500,000.
- For 2025 through 2028, a deduction is available for qualified overtime premium pay received by taxpayers during a given taxable year. The deduction is limited to \$12,500 (\$25,000 in the case of a joint return). The deduction begins to phase out starting at a modified adjusted gross income of \$150,000 (or \$300,000 for joint filers).
- For 2025 through 2028, a deduction is available of up to \$25,000 for qualified tips received by taxpayers. The deduction begins to phase out starting at modified adjusted gross income of \$150,000 (or \$300,000 for joint returns).
- An above-the-line deduction is available for tax years 2025 through 2028 of up to \$10,000 for qualified passenger vehicle loan interest paid during a given taxable year. The deduction phases out starting when the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of a joint return). To be eligible, the passenger vehicle must have at least two wheels, be made primarily for use on public streets, roads, and highways, and have its final assembly occur in the United States.
- Eligible expenses for the use of distributions from 529 plans is expanded to more expenses associated with elementary, secondary or homeschooling programs, as well as including expenses associated with postsecondary credentialing programs. New expense definitions apply to distributions made after July 4, 2025.

- Tax credits for “clean” vehicles, “clean” energy expenditures, and energy efficient home improvements are only available through December 31, 2025.
- Several items in the tax code that were set to revert to pre-2018 status are now here to stay. They include:
 - The disallowance of a deduction for moving expenses or for moving expenses to be paid tax-free by an employer.
 - The disallowance of miscellaneous itemized deductions on Schedule A, including unreimbursed employee business expenses (except for educator expenses).
 - Lower individual tax rates.
 - Higher standard deductions, but no deductions for personal exemptions.
 - Higher amounts for the Child Tax Credit.
 - Increased amounts for estate and gift tax exclusions.
 - Limitations on qualified mortgage interest to mortgages not to exceed \$750,000.

Changes affecting 2026 and future tax years:

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

- The maximum annual exclusion for employer-provided dependent care assistance increases to \$7,500 for single filers and joint filers.
- Taxpayers in the 37-percent income tax bracket will find their itemized deductions limited.

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

- For high-income individuals' catch-up contributions to retirement plans, employees with wages (as defined for purposes of FICA/Medicare tax withholding) of more than \$150,000 paid in the prior calendar year must be contributed to a Roth account within the plans. Originally effective for plan years beginning after December 31, 2023, the effective date has been delayed to plan years beginning after December 31, 2025.
- The mileage rate for miles driven for business increased to 70 cents per mile on January 1, 2025, an increase of 3 cents per mile and was available for the entire 2025 tax year. The business mileage rate for 2026 is 72.5 cents per mile.
- The charitable mileage rate for 2025 and 2026 remains at 14 cents per mile.
- The Alternative Minimum Tax exemption amount for tax year 2025 increases to \$88,100 for single taxpayers and \$137,000 for married persons filing jointly. The exemption amount for single persons (and heads of household and married persons filing separately) begins to phase out at \$626,350, and the exemption amount for married couples filing jointly begins to phase out at \$1,252,700.
- For estates of any decedent passing away in calendar year 2025, the basic exclusion amount is \$13,990,000.
- For 2025, the foreign earned income exclusion is \$130,000.
- For 2025, the maximum earned income credit amount is \$8,046 for taxpayers with three or more qualifying children.
- For contributions in 2025 to a traditional IRA, the deduction phaseout income range for an individual covered by a retirement plan at work runs between \$126,000 and \$146,000 for joint filers and \$79,000 and \$89,000 for a single person or head of household. These ranges increase in 2026. The range for joint filers will run between \$129,000 and \$149,000. The range for a single person or head of household will run between \$81,000 and \$91,000.
- The dollar limit on annual elective deferrals an individual could make to a 401(k) or 403(b) retirement plan is \$23,500 for 2025. It increases to \$24,500 for 2026.
- The catch-up contribution limit on elective deferrals to a 401(k) or 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$7,500 for 2025. It increases to \$8,000 for 2026. The new additional catchup

contribution is available for participants ages 60, 61, 62 or 63, raising their limit to \$11,250. (The limit is unchanged for 2026.) Beginning in 2026, a new provision requires catch-up contributions to be contributed to Roth accounts within the 403(b) plan, if a participant's income exceeds \$150,000 in 2025 for contributions made in 2026. If a church's plan does not provide for Roth accounts, it must be amended by December 31, 2026, to be eligible to receive these contributions from higher-income employees. Because "wages" for this provision use the definition for purposes of FICA/Medicare withholding, the provision will not apply to ministers. Wages paid to ministers do not meet this definition.

Preliminary Questions

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

Q. Must ministers pay federal income taxes?

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

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

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

Q. What records should I keep?

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

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

A. File a 2025 Form 1040 (or Form 1040-SR, U.S. Tax Return for Seniors) and pay any tax due by April 15, 2026. If you live in Maine or Massachusetts, you may file by April 17, 2026, because of the Patriots' Day and Emancipation Day

holidays. If you file after this date, you may have to pay interest and penalties. If you want an automatic six-month extension of time to file the return, see the following question for how to obtain an extension. The extension will not extend the time to pay your taxes, so estimate what you owe in tax and pay it in full to avoid penalties and interest.

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

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

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

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

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

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

of the electronic payment methods.

Q. Should I prepare my own tax return?

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

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

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA 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 ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance since this work would not be the exercise of ministry.

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

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

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

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

Income taxes

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

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

EXAMPLE Pastor B is a minister at First 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.

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

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 based on religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by 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 approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing

that they do not qualify for the exemption. A decision to opt out of self-employment tax is irrevocable. But section 4.19.6.4.12.3 (02-13-2020) of the IRS's *Internal Revenue Manual* explicitly recognizes that, under some conditions, ministers who have exempted themselves from self-employment taxes solely for economic reasons can revoke their exemption. The IRS does have the authority to revoke a minister's decision to opt out of self-employment tax, if it is determined 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 they have worked enough quarters. Generally, 40 quarters are required. Ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) based on their spouse's coverage, if the spouse had enough credits.

KEY POINT The amount of earnings required for a quarter of coverage in 2025 is \$1,810. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

KEY POINT Ministers who work after they retire must continue to pay self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax as a minister and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to self-employment tax, including amounts paid from retirement plans designated as housing allowance.

How do ministers pay their taxes?

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

A ministers' wages are exempt from mandatory federal income tax withholding. This

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

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

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

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

Step 1

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

Step 2

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

2026 in each of four quarterly installments as follows:

FOR THE PERIOD	DUE DATE
January 1–March 31	April 15, 2026
April 1–May 31	June 15, 2026
June 1–August 31	September 15, 2026
September 1–December 31	January 15, 2027

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

Step 3

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

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

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

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

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

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

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

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

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

KEY POINT Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed W-4 (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church may not withhold the employee's share of Social Security and Medicare taxes, even on a voluntary basis. However, ministers can request on Form W-4 (line 4c) that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister's self-employment tax liability. Many churches unintentionally withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld. Withholding income tax is a preferential method of paying taxes, since it is considered to have been equally paid throughout the year, no matter the date the tax is withheld. This means withholding can be adjusted later in the year, and it is treated as if it was paid evenly throughout the year, thus avoiding potential underpayment penalties.

Primer on a minister's income

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

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by the church)
- The portion of a minister's self-employment tax paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a nonaccountable plan
- Imputed cost of group term life insurance coverage exceeding \$50,000.
- The cost of life insurance provided outside of a group plan if not considered as "key man" life insurance
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- "Discretionary funds" established by a church for a minister to spend on current needs—if the minister is allowed to distribute funds for 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 (i.e., most “gifts” from a church to a pastor commemorating a holiday, birthday, anniversary, or retirement).

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

KEY POINT The IRS can assess *intermediate sanctions* in the form of substantial excise taxes (i.e., monetary penalties) against ministers who benefit from an excess benefit transaction. Sanctions only apply to a minister who is a “disqualified person” (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 Treasury Regulations define that disqualified persons receive “automatic” excess benefits resulting in intermediate sanctions,

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

Excess benefits are required to be repaid to the church. Ministers also face a "first-tier" penalty of 25 percent of the amount of the excess benefit from the IRS, plus an additional "second-tier" tax of 200 percent of the excess benefit from the IRS if it was not timely returned to the church.

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

Gifts. Gifts, as defined by the Internal Revenue Code and the courts, are excludable from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a tax professional.

Life insurance and inheritances. Life insurance proceeds and inheritances are excludable from taxable income. Income earned before distributions of proceeds is generally taxable as income.

Employer-paid group life insurance. Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000. (This exclusion does not apply to individual life insurance policies provided outside of a "group" arrangement.)

Tuition reductions. School employees may exclude from their taxable income a "qualified tuition reduction" provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.

- Highly compensated employees cannot exclude qualified tuition reductions from their gross income unless the same benefit “is available on substantially similar terms” to non-highly compensated employees. For 2025, the term *highly compensated employee* refers to any employee whose annual compensation for the “look-back” year of 2024 exceeded \$155,000. The fact that a highly compensated employee must report the value of a tuition reduction in his or her income for tax reporting purposes does not affect the right of employees who are not highly compensated to exclude the value of tuition reductions from their income.
- **NEW IN 2025** For 2026, a highly compensated employee is an employee who received \$160,000 or more in compensation during the “look-back” year of 2025.

Lodging. The value of lodging furnished to a minister (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. For 2025, the exclusion may not exceed \$5,250.

Employer-provided childcare. Churches may provide 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. (For tax years beginning after December 31, 2025, the exclusion for dependent care increases to \$7,500.) 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, both tax free and taxable, provided through the plan are reported on the employee’s Form W-2 in Box 10.

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

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

Housing Allowance

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

Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses (see below), and (3) it does not exceed the fair rental value of the home (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.

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.

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

The rental value of a parsonage, and a housing allowance, are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing self-employment (Social Security) taxes *unless they are retired*. The tax code specifies that the self-employment tax does *not* apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

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

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues 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 1h of Form 1040.
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on Schedule SE (unless they are exempt from self-employment taxes).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

EXAMPLE A church designated \$25,000 of Pastor D's 2025 compensation as a housing allowance. Pastor D's housing expenses for 2025 were utilities of \$4,000, mortgage payments of \$18,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home (including furnishings but not including utilities) is \$19,000. Pastor D's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of 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 (the \$19,000 for the fair rental value of the home, including furnishings, plus the \$4,000 for utilities, for a total of \$23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by her church (\$2,000) as additional income on Line 1h of Form 1040.

EXAMPLE Same facts as the previous example, except the church designated \$12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000 (the church designated housing allowance) and so this represents the nontaxable amount. Note that Pastor D's actual housing expenses were more than the allowance, and so 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 2025. These expenses include mortgage (principal and interest), property taxes, utilities, insurance, and repairs. The church designated (in advance) \$12,000 of Pastor Y's 2025 compensation as a housing allowance. Pastor Y is able to itemize expenses on Schedule A (Form 1040). He is able to claim itemized deductions on Schedule A for both his mortgage interest and his property taxes (up to \$40,000/\$20,000 if married filing separately), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the "double deduction." In fact, it represents an exclusion and a deduction.

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

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

TAX 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 consider unexpected housing costs or inaccurate projections of expenses.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March of 2026 that it failed to designate a housing allowance for its pastor for 2026. It is not too late to act. The church should immediately designate a portion of its minister's remaining compensation for 2026 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year *and all future years unless otherwise provided*. If such a resolution had been adopted in the December 2024 board meeting (i.e., "for 2025 and future years") it would not matter that the church neglected to designate a minister's 2026 allowance until March of 2026, since the previous designation would have "carried over." Such "safety net" designations are not a substitute for annual housing allowances (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 and they are a minister eligible to receive the benefit. Retired ministers who give up their ministerial credentials may also be challenged as to their ability to receive a housing allowance from retirement funds.

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

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 2025, 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 \$70,000. This rule is known as the "section 415(c) limit." The limit does not include the additional catch-up contributions of \$7,500 that may be contributed through elective deferrals by persons over 50 (or \$11,250 for those who are 60, 61, 62, or 63). Excess contributions can result in additional taxes and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

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

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

Minister's housing allowance and 403(b) contribution limits

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

If the housing allowance is treated as compensation, 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.

Salary reduction contributions

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

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

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

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

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

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 that include employees and their children as potential recipients.

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

advice from a professional.

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion and must be included on the recipient's Form 1040 on Schedule 1, Line 8r.

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

EXAMPLE First Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master's degree at a seminary. Robert applies to the church's scholarship plan and is awarded a scholarship of \$2,500 for 2025. 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.

PART 3

STEP-BY-STEP TAX RETURN PREPARATION

Tax forms and schedules

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

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

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

Schedule B is for reporting dividend and interest income.

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

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

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

Form 1040

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

Step 1: Filing status

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

Step 2: Name and address

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

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

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

Enter your P.O. Box number only if your post office does not deliver mail to your home.

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

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

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

Step 3: Dependents

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

Step 4: Income

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

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

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

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

Line 1h. Other Earned Income

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

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

Line 2 (Form 1040). Interest income; attach Schedule B if more than \$1,500

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

Line 3 (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 \$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. The distribution code found in Box 7 also provides direction on the taxation of the distribution and should be considered in completed Line 4b.

Withdrawals from a traditional IRA taken before age 59½ are generally subject to a 10-percent penalty tax unless one of the exceptions applies. Distributions from a traditional IRA are fully or partially taxable in the year of distribution depending on whether or not contributions have been deductible or nondeductible. Use Form 8606 to determine the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

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

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

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

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

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

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

Lines 5a and 5b (Form 1040). Pensions and annuities

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

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

Many denominational pension funds annually designate 100 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.

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

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

General rules regarding taxation of distributions from a 403(b) plan

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

- reaches age 59½
- has a severance from employment
- dies
- becomes disabled
- encounters financial hardship (see *IRS Publication 571*)

Hardship distributions may be made from salary reduction contributions, including earnings, qualified nonelective employer contributions, and qualified and/or employer matching contributions. However, a 403(b) plan may make hardship distributions only if permitted by the plan. The allowable situations considered as “hardships” changes and

new changes may require a church to amend its 403(b) plan prior to permitting hardship distributions from these additional resources.

Once amounts are distributed, they are generally taxable as ordinary income unless designated in advance as a minister's housing allowance. In addition, if amounts are distributed prior to 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.
- The distribution is related to the birth or adoption of a child (limited)
- The distributions in connection with a federally declared disaster (limited)
- The distribution is made to someone who is terminally ill
- The distribution is related to a qualified disaster (limited)
- The distribution is related to an unforeseen emergency (limited)
- The distribution is related to a victim of domestic abuse (limited)

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

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

KEY POINT Many denominational pension plans assist with calculating RMDs.

KEY POINT Funds held in Roth accounts of 403(b) plans are not subject to the RMD rules during the lifetime of the employee.

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

Lines 6a and Line 6b (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 2025 was your Social Security benefits, your benefits generally aren't taxable. But some taxpayers must pay federal income taxes on their Social Security benefits (retirement, survivor, and disability). This occurs if you have other substantial income in addition to your benefits (such as wages, self-employment income, interest, dividends, and other taxable income that must be reported on your tax return).

If you:

- **file a federal tax return as an individual or married filing separately** and your *combined income* is
 - 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 one-half of your Social Security benefits.

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

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

Each January, you will receive 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).

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.

Sale or exchange of your principal residence

A personal residence is a capital asset that is utilized for personal purposes. While losses from the sale of a residence are not deductible, the gain from the sale of a personal residence may be taxable. A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if 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 8 (Form 1040). Additional income

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

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

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

- Compensation reported to you on Form 1099-NEC
- Fees received directly from church members for performing personal services (such as 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 8 of Schedule 1 (Form 1040). Other income includes the following items:

- Net operating losses from a prior year
- Winnings from gambling (losses are only deductible on Schedule A)
- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on Schedule C)
- Most prizes and awards
- Some taxable distributions from a health savings account (HSA) or Archer MSA (see *IRS Publication 969*)

- Jury duty pay
- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within three years of the contribution.
- Taxable portion of scholarships received.
- Taxable benefits provided by the church but not included on Form W-2 or Form W-2c. (Also remember to include these benefits on Schedule SE for the calculation of self-employment tax.)

Line 9 (Form 1040). Total income

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

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 total of adjustments on Lines 11 through 25 of Form 1040 (Schedule 1) and on Line 10 (Form 1040). The total amount on Line 10 is subtracted from Line 9 (Form 1040) to compute 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) Deductible part of self-employment tax

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

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

(2) Line 20 (Schedule 1). IRA deduction

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

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

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

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

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

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

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 2025, the senior pastor can contribute \$8,000 to an

IRA (maximum annual contribution of \$7,000 plus a “catch-up” contribution of \$1,000), and the youth pastor can contribute \$7,000.

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

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

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

Individuals who cannot claim a deduction for an IRA contribution still can make nondeductible IRA contributions, subject to the lesser of \$7,000 (\$8,000 if you are age 50 or older) for 2025 or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and 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.

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 2025 if your AGI, as modified, is \$246,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your

AGI, as modified, is \$165,000 or more. For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2026 if your AGI, as modified, is \$252,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$168,000 or above.

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

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

Line 11 (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 or availability of various deductions and credits. However, several deductions are based on “modified” adjusted gross income. This term refers to adjusted gross income that includes certain additions or subtractions before it is used to determine the deduction or the credit. The new Schedule 1-A Part I calculates this amount.

Tax computation

After adjusted gross income is determined, other deductions are available to determine taxable income. For 2025, several new deductions are available and are reported on

Schedule 1-A.

Line 12 (Form 1040). Standard deductions or itemized deductions

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

On Line 12 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 2025, the standard deduction amounts are as follows:

FILING STATUS AND STANDARD DEDUCTION AMOUNT (2025)

single	\$15,750
married filing jointly or qualifying widow(er).....	\$31,500
married filing separately	\$15,750
head of household	\$23,625

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

Line 13a (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 percent 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 percent 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 percent of taxable income before the qualified business income deduction less net capital gains.

The qualified business trade or business activities of ministers who report their federal income taxes as self-employed is considered a “specified service trade or business.” Thus, there may be an exception to the deductibility of the QBI deduction. If a minister’s taxable income (reported on Line 15 of the Form 1040) before this deduction exceeds \$197,300 (\$394,600 if married filing jointly) for 2025, then the deduction may be limited; if taxable income exceeds \$247,300 (\$494,600 if married filing jointly) for 2025, 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 13b (Form 1040) Additional Deductions from Schedule 1-A

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

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

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

(\$300,000 if filing married filing jointly).

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

Part V Enhanced Deduction for Seniors. For taxpayers born prior to January 2, 1961, and who have a valid Social Security number, a new deduction of \$6,000 is available. This deduction begins to phase out at a modified adjusted gross income of \$75,000 (\$150,000 if filing jointly).

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 more valuable than deductions or 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. These credits are reported on Lines 19 and 20 of Form 1040.

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

Lines 19 and 28 (Form 1040). Child Tax Credit.

The Child Tax Credit for 2025 is \$2,200 per qualifying child under the age of 17 and \$500 per qualifying dependent that does not meet the definition of a qualifying child. The \$500 per qualifying dependent is a 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 as the "Additional Child Tax Credit" and the maximum amount of the refundable portion of the credit is \$1,700 per qualifying child. The credit is reduced based on a taxpayer's modified adjusted gross income starting at \$400,000 for jointly filed returns and \$200,000 for all other filers. It is completely phased out at \$480,000 for jointly filed returns and \$240,000 for all other filers. The credit is calculated on Form 8812.

Line 20, Schedule 3 (Form 1040). Other available credits

On your 2025 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, *IRS Publication 503*)** The Child and Dependent Care Credit is a tax credit that may help you pay for the care of eligible children and other dependents (qualifying persons). The credit is calculated based on your income and a percentage of expenses that you incur for the care of qualifying persons to enable you to go to work, look for work, or attend school.

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

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

- **the credit for education expenses (see Form 8863 and *IRS Publication 970*)** Credits for higher education include the American Opportunity Tax Credit (partially refundable, reported on Line 29) and the Lifetime Learning Credit (nonrefundable). Credits are fully phased out at \$180,000 for those married filing jointly and \$90,000 for all other filers.
- **the retirement savings credit (Form 8880, *IRS Publication 590-A*)** If you make eligible contributions to certain eligible retirement plans or to an IRA, you may be able to take a tax credit up to \$1,000. The amount of the saver's credit you can get is generally based on the contributions you make and your credit rate. Refer to *IRS Publication 590-A* or the instructions for Form 8880 for more information. The credit is phased out at \$79,000 of AGI for those married filing jointly, at \$59,250 for those filing head of household, and at \$39,500 for those filing single or married filing separately.

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

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

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

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

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

Payments

On the 2025 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 mandatory federal income tax withholding. As a result, only those ministers who requested a voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister's Form W-2.

KEY POINT Ministers who request voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not withhold the employee's share of *Social Security and Medicare taxes*, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on Form W-4 or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Forms W-2 and 941) rather than the employee's share of Social Security and Medicare taxes. They constitute a payment that can be applied to both income taxes and self-employment taxes. Ministers still must complete Schedule SE to report their self-employment tax liability.

Line 25b – Federal income tax withheld from Forms 1099

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

Line 25c – Federal income tax withheld from other forms

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

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

Lines 27, 28, 29, and 30 (Form 1040)

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

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

- the Earned Income Credit (EIC) reported on Form 1040 Line 27 (addressed below). *IRS Publication 596*.
- Child Tax Credit calculated on Form 8812 reported on Line 28 of the Form 1040 (see previous discussion in this guide).
- American Opportunity Tax Credit calculated on Form 8863 and reported on Line 29 of Form 1040. *IRS Publication 970*.
- Adoption Tax Credit calculated on Form 8839 and reported on Line 30 of the Form 1040.

Line 27 (Form 1040). Earned Income Credit (EIC)

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

In most cases, the amount of your EIC 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 adjusted gross income.

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

If you qualify for it, the 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 \$8,046 for 2025.

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

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

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

timely Form 4361 exemption application with the IRS.

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

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

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

KEY POINT The definition of “earned income” for the EIC is not the same definition of “earned income” utilized in calculating the Additional Child Tax Credit.

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

Lines 34 or 37 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 to you.

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

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

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

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

Sign here

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

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

Other forms and schedules

Schedule A

KEY POINT If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A

(Form 1040). This section will summarize the itemized deductions.

Step 1: Medical and dental expenses (Lines 1–4)

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 7.5 percent of your AGI. You must reduce your medical expenses by 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 (proposed regulations suggest that amounts paid to health cost-sharing arrangements may be deductible. Seek professional assistance to determine the status of this potential deduction.)
- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- The supplemental part of Medicare insurance (Medicare Part B)
- Medicare D premiums you pay
- Medicare Supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)

- Transportation for necessary medical care. For 2025, the standard mileage rate for medical travel was 21 cents per mile. The 2026 rate is 20.5 cents per mile, down a half cent from 2025.
- 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
- Trips for general improvement of health
- Most cosmetic surgery

Step 2: Taxes you paid (Lines 5–7)

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

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

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

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

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities that would grant “tax credits” in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

Step 3: Interest you paid (Lines 8-10)

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

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

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

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

For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1 million (\$500,000 if you are married filing separately) of

that debt. The only exception is for loans taken out on or before October 13, 1987 (see *IRS Publication 936* for more information about loans taken out on or before October 13, 1987.)

See *IRS Publication 936* to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1,000,000 (\$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 automatically will be a portion of the interest paid on the new mortgage that is not deductible.

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

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

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

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

charitable mileage rate of 14 cents for each substantiated mile.

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

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

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

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

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

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60 percent of AGI (2025). In some cases, contributions that exceed this limit can be carried over and claimed on future returns for up to five years. Some charitable contributions are limited to 20 percent or 30 percent of AGI, depending on the recipient and the form of the contribution.

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

not deductible include contributions to church benevolence or scholarship funds designating a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not designate a specific recipient.

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

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

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

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

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

Step 5: Casualty and theft losses (Line 15)

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

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

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

Personal casualty losses attributable to a "qualified" disaster loss are not subject to the 10 percent of AGI reduction and the \$100 reduction is increased to \$500. A "qualified" disaster is one declared by the president between January 1, 2020, and September 2, 2025.

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

Schedule B

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

Step 1: Interest income (Lines 1–4)

List (on Line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2025. Be sure the interest you report on Line 1 corresponds to any 1099-INT 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 2025. 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.

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

Step 3: Foreign accounts and foreign trusts (Lines 7–8)

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

KEY POINT If you have foreign bank accounts, you may be subject to additional filings, including FinCEN 114 or Form 8938. This can also occur if your church has foreign bank accounts, and you have signature authority on the accounts.

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

Schedule C

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

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

Step 1: Introduction

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

Step 2: Income (Lines 1–7)

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

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

TAX TIP There are circumstances where income may be reported to you on

Form 1099-K that is not taxable. In the event you receive Form 1099-K with income included in error or for personal transactions, the nontaxable amounts should be reported on the specially designated line on Form 1040 Schedule 1.

Step 3: Expenses (Lines 8–27)

CAUTION Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on Schedule C (and avoid the 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 ([this article](#) by Richard Hammar goes into more detail about accountable reimbursement arrangements).

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 while 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 percent of the cost of business meals if you are present and the food or beverages are not considered lavish or extravagant.

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

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

Step 4: Expenses for the business use of your home (Line 30)

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

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

Schedule SE

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

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

Step 1: Part I (Line 2)

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

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

- other items of church income (including taxable fringe benefits omitted from your 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 the church

(unless you are retired)

- a housing allowance (unless you are retired)
- business expense reimbursements paid under a nonaccountable plan
- the value of meals served on the church's premises for the convenience of the employer
- any amount a church pays toward your income tax or self-employment tax

And then deduct the following:

- salary reduction contributions (elective deferrals) to a 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 if included in your gross income above
- unreimbursed employee business expenses
- business expenses that were not deducted on Schedule C due to the allocation of a portion of the business expenses to the tax-free housing allowance pursuant to the requirements of IRC Section 265(a)(1), better known as the "Deason Rule"

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

1. an old-age, survivor and disability (Social Security) tax of 12.4 percent calculated on Line 10, and

2. a Medicare hospital insurance tax of 2.9 percent calculated on Line 11.

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

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

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

Form 8959, Additional Medicare Tax

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

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

HELPFUL NUMBERS AND RESOURCES

To request IRS forms: 800-TAX-FORM or 800-829-3676

IRS home page [irs.gov](https://www.irs.gov)

[ChurchLawAndTax.com](https://www.ChurchLawAndTax.com)—A Church Law & Tax website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management.

[ChurchLawAndTaxStore.com](https://www.ChurchLawAndTaxStore.com)—Church Law & Tax’s online store with church management resources to keep your church safe, legal, and financially sound.

The online [Church & Clergy Tax Guide](#)—Richard Hammar’s comprehensive, year-round tax reference available to Church Law & Tax’s Advantage Members on ChurchLawAndTax.com.

[Church Compensation, Second Edition \(with 2025 Updates\)](#)—CPA Elaine Sommerville guides you through every aspect of employment compensation in easy-to-understand language.

Example One: Active Minister

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 \$10,500. Rev. Michaels owns a home next to the church. He makes a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450, and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his 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 2025.

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

Form W-2 from Church

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

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

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

Boxes 3 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' \$10,500 salary.

Box 2. The college withheld \$840.00 in federal income tax on Rev. Michaels' behalf.

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

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

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

Schedule C (Form 1040)

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

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

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

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

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct the part of his expenses allocable to his tax-free 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 in Part IV.

Line 27b. Rev. Michaels reports \$87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free 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 27b. He also reports a description of the expense in Part V.

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

Lines 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. Michaels did not have any expenses for business use of his home; therefore, his net profit is \$3,747. Net profit on Schedule C is also reported on Schedule 1 (Form 1040), line 3.

Lines 43 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 27b.

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 other 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 not deductible on Schedule A as itemized deductions for federal income tax purposes, these expenses are still deductible by ministers for self-employment tax purposes. Rev. Michaels' records show that he drove 2,024 miles during the year. He multiplies the miles driven by the mileage rate of 70 cents per mile. The result is \$1,417. Additionally, Rev. Michaels paid for \$219 of professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were \$1,636. After including the \$85 of Schedule C expenses allocable to tax-free income, the total deductions against self-employment income is \$1,721.

Lines 4a through 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.

Lines 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 \$176,100, 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), lines 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), lines 15 and 26.

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). If the "Ministerial Business Expenses" adjustment does not automatically populate in the software, the taxpayer can use the Schedule SE Adjustment Worksheet by navigating to the Forms mode within the Turbo Tax Desktop version to input the clergy business deductions and related explanation.

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 2025 and Schedule 8812 to compute the Child Tax Credit for 2025, Rev. Michaels must complete certain parts of the Form 1040.

He fills out Form 1040, along with Schedules 1 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 \$55,500. This amount is the total of the amounts reported in Box 1 of his Forms W-2 (\$45,000 from the church and \$10,500 from the college).

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

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

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

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

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

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

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

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

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

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

Form 1040, Page 2, Lines 16 and 18. Rev. Michaels uses the tax tables in the 2025 Form 1040 instructions to determine his applicable tax and enters the amount (\$2,278) 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 2025 taxable income of less than \$197,300 (\$394,600 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 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 the qualified business income deduction (\$23,478) on line 11. This amount is equal to Form 1040, line 11a (\$54,978) less Form 1040, line 12e (\$31,500). Since there is no amount reported on line 12, he also reports this amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20% (\$4,696), which he reports on line 14. He then reports the lesser of line 10 or line 14 on line 15 (\$696). Rev. Michaels also enters this amount on Form 1040, line 13a.

Line 16 and 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 lines 6 and 7 were \$0.

Credits for Qualifying Children and Other Dependents (Schedule 8812)

Rev. Michaels prepares Schedule 8812 to calculate the amount of the child tax credit for 2025.

Lines 1 through 3. Rev. Michaels enters the amount from Form 1040, line 11a 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 2025. Line 4 is multiplied by \$2,200, and \$2,200 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 (\$54,978) less line 9 (\$400,000) is less than \$0.

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

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

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

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

Form 1040, Lines 19 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 2025. Rev. Michaels figured the credit by completing Schedule 8812.

Form 1040, Page 2, Line 23 and Schedule 2 (Form 1040). Rev. Michaels completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount (\$9,018) on Schedule 2 (Form 1040) 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, Lines 25a and 25d. He enters the federal income tax shown in box 2 of his Form W-2 from the college (no amount was reported in box 2 of his Form W-2 from the church).

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

Form 1040, Page 2, Lines 27 through 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 enters 0 on lines 27a and 32, checks the box on line 27b as a clergy member filing Schedule SE, and checks the box on line 27c since he cannot take the earned income credit. He does not enter any amounts on lines 28 through 31.

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 (\$12,840).

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


a Employee's social security number 011-00-1111		OMB No. 1545-0029		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile .		
b Employer identification number (EIN) 00-0246810				1 Wages, tips, other compensation 45000.00		2 Federal income tax withheld				
c Employer's name, address, and ZIP code First United Church 1042 Main Street Hometown, Texas 77099				3 Social security wages		4 Social security tax withheld				
				5 Medicare wages and tips		6 Medicare tax withheld				
				7 Social security tips		8 Allocated tips				
d Control number				9		10 Dependent care benefits				
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12		
John E. Michaels 1040 Main Street Hometown, Texas 77099						13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
						14 Other Parsonage Allowance 16800.00		12c		
								12d		
f Employee's address and ZIP code										
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name

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

2025

Department of the Treasury—Internal Revenue Service

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

a Employee's social security number 011-00-1111		OMB No. 1545-0029		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile .		
b Employer identification number (EIN) 00-1357913				1 Wages, tips, other compensation 10,500.00		2 Federal income tax withheld 840.00				
c Employer's name, address, and ZIP code Hometown College 40 Honor Road Hometown, Texas 77099				3 Social security wages 10,500.00		4 Social security tax withheld 651.00				
				5 Medicare wages and tips 10,500.00		6 Medicare tax withheld 152.25				
				7 Social security tips		8 Allocated tips				
d Control number				9		10 Dependent care benefits				
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12		
John E. Michaels 1040 Main Street Hometown, Texas 77099						13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
						14 Other		12c		
								12d		
f Employee's address and ZIP code										
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name

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

2025

Department of the Treasury—Internal Revenue Service

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

TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040

Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return

2025

OMB No. 1545-0074

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

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

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

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

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

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. 1040 Main Street

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. Hometown TX 77099

Foreign country name Foreign province/state/county Foreign postal code You Spouse

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

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

Table with 5 columns: (1) First name, (2) Last name, (3) SSN, (4) Relationship, (5) Check if lived with you more than half of 2025, (6) Check if, (7) Credits. Includes dependent information for Jennifer Michaels, Daughter.

Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income section table with rows 1a through 1z. Total amount from Form(s) W-2, box 1: 55,500. Add lines 1a through 1h: 55,740.

Income section table with rows 2a through 11a. Tax-exempt interest, Qualified dividends, IRA distributions, Pensions and annuities, Social security benefits, Capital gain or (loss). Total income: 59,487. Adjustments to income: 4,509. Adjusted gross income: 54,978.

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Table with columns for line numbers (11b-24), descriptions (e.g., Amount from line 11a, Standard deduction), and values (e.g., 54,978, 31,500, 22,782).

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

Table with columns for line numbers (25-33), descriptions (e.g., Federal income tax withheld, Payments and Refundable Credits), and values (e.g., 840, 12,000, 12,840).

Table with columns for line numbers (34-36), descriptions (e.g., Refund, Direct deposit?), and values (e.g., 3,744, 3,744).

Table with columns for line numbers (37-38), descriptions (e.g., Amount You Owe, Estimated tax penalty), and values (e.g., 37, 38).

Third Party Designee section with fields for name, phone number, and personal identification number.

Sign Here section with signature lines for John Michaels and Susan Michaels, including dates and occupations.

Paid Preparer Use Only section with fields for preparer's name, signature, date, PTIN, and firm information.

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SCHEDULE 1 (Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074

Department of the Treasury Internal Revenue Service

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

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

2025 Attachment Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR John E & Susan R Michaels

Your social security number 011-00-1111

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

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

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Table with columns for line numbers (1-10), descriptions of income types (e.g., Taxable refunds, Alimony, Business income), and amounts. Line 3 shows 3,747. Line 10 shows 3,747.

Part II Adjustments to Income

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

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**SCHEDULE 2
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Taxes

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

OMB No. 1545-0074

2025
Attachment
Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR
John E & Susan R Michaels

Your social security number
011-00-1111

Part I Tax

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

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE. Check if any exemption from (see instructions): 1 <input type="checkbox"/> 4361 2 <input type="checkbox"/> 4029 3 <input type="checkbox"/> _____	4	9,018
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5	
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6	
7	Total additional social security and Medicare tax. Add lines 5 and 6	7	
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8	
9	Household employment taxes. Attach Schedule H	9	
10	Reserved for future use	10	
11	Additional Medicare Tax. Attach Form 8959	11	
12	Net investment income tax. Attach Form 8960	12	
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	

(continued on page 2)

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Part II Other Taxes (continued)

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

9,018

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SCHEDULE C (Form 1040)

Profit or Loss From Business (Sole Proprietorship)

OMB No. 1545-0074

2025

Attachment Sequence No. 09

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065. Go to www.irs.gov/ScheduleC for instructions and the latest information.

Name of proprietor: John E Michaels; Social security number (SSN): 011-00-1111; Principal business: Minister; Business name: [blank]; Business address: 1040 Main Street, Hometown, TX 77099; Accounting method: Cash; Did you materially participate: Yes; If you started or acquired this business during 2025, check here: [blank]; Did you make any payments in 2025 that would require you to file Form(s) 1099? Yes; If "Yes," did you or will you file required Form(s) 1099? Yes.

Part I Income

Table with 7 rows for income items: 1 Gross receipts or sales (4,000), 2 Returns and allowances, 3 Subtract line 2 from line 1 (4,000), 4 Cost of goods sold, 5 Gross profit (4,000), 6 Other income, 7 Gross income (4,000).

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

Table with 32 rows for expense items: 8 Advertising, 9 Car and truck expenses (188), 10 Commissions and fees, 11 Contract labor, 12 Depletion, 13 Depreciation and section 179 expense deduction, 14 Employee benefit programs, 15 Insurance, 16 Interest, 17 Legal and professional services, 18 Office expense, 19 Pension and profit-sharing plans, 20 Rent or lease, 21 Repairs and maintenance, 22 Supplies, 23 Taxes and licenses, 24 Travel and meals, 25 Utilities, 26 Wages, 27a Energy efficient commercial bldgs deduction, 27b Other expenses (65), 28 Total expenses (253), 29 Tentative profit or (loss) (3,747), 30 Expenses for business use of your home, 31 Net profit or (loss) (3,747), 32 Investment risk questions.

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*See statement attached.

**SCHEDULE SE
(Form 1040)**

Self-Employment Tax

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

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

2025
Attachment
Sequence No. **17**

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

Social security number of person
with **self-employment** income **011-00-1111**

Part I Self-Employment Tax

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

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

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

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

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

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

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order **2** 63,826*

3 Combine lines 1a, 1b, and 2 **3** 63,826

4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **4a** 58,943

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

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

c Combine lines 4a and 4b. If less than \$400, **stop**; you don't owe self-employment tax. **Exception:** If less than \$400 and you had **church employee income**, enter -0- and continue **4c** 58,943

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

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

6 Add lines 4c and 5b **6** 58,943

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

8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$176,100 or more, skip lines 8b through 10, and go to line 11 **8a** 10,500

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

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

d Add lines 8a, 8b, and 8c **8d** 10,500

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 **9** 165,600

10 Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124) **10** 7,309

11 Multiply line 6 by 2.9% (0.029) **11** 1,709

12 Self-employment tax. Add lines 10 and 11. Enter here and on **Schedule 2 (Form 1040), line 4, or Form 1040-SS, Part I, line 3** **12** 9,018

13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on **Schedule 1 (Form 1040), line 15** **13** 4,509

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

Cat. No. 11358Z

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

*See statement attached.

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

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

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

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

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

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

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

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

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

**SCHEDULE 8812
(Form 1040)**

**Credits for Qualifying Children
and Other Dependents**

OMB No. 1545-0074

2025

Attachment
Sequence No. **47**

Department of the Treasury
Internal Revenue Service

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

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

Name(s) shown on return

John E & Susan R Michaels

Your social security number

011-00-1111

Part I Child Tax Credit and Credit for Other Dependents

1	Enter the amount from line 11a of your Form 1040, 1040-SR, or 1040-NR		1	54,978
2a	Enter income from Puerto Rico that you excluded	2a		
b	Enter the amounts from lines 45 and 50 of your Form 2555	2b		
c	Enter the amount from line 15 of your Form 4563	2c		
d	Add lines 2a through 2c	2d		0
3	Add lines 1 and 2d	3		54,978
4	Number of qualifying children under age 17 with the required social security number	4	1	
5	Multiply line 4 by \$2,200	5		2,200
6	Number of other dependents, including any qualifying children who are not under age 17 or who do not have the required social security number	6	0	
Caution: Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4.				
7	Multiply line 6 by \$500	7		
8	Add lines 5 and 7	8		2,200
9	Enter the amount shown below for your filing status. • Married filing jointly—\$400,000 } • All other filing statuses—\$200,000 }	9		400,000
10	Subtract line 9 from line 3. • If zero or less, enter -0-. • If more than zero and not a multiple of \$1,000, enter the next multiple of \$1,000. For example, if the result is \$425, enter \$1,000; if the result is \$1,025, enter \$2,000, etc. }	10		0
11	Multiply line 10 by 5% (0.05)	11		0
12	Is the amount on line 8 more than the amount on line 11? <input type="checkbox"/> No. Stop here. You cannot take the child tax credit, credit for other dependents, or additional child tax credit. <input checked="" type="checkbox"/> Yes. Subtract line 11 from line 8. Enter the result.	12		2,200
13	Enter the amount from Credit Limit Worksheet A	13		2,278
14	Enter the smaller of line 12 or line 13. This is your child tax credit and credit for other dependents Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 19.	14		2,200

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

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Part II-A Additional Child Tax Credit for All Filers

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

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

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

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


Part II-C Additional Child Tax Credit

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

Keep for Your Records 

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

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Form **8995**

**Qualified Business Income Deduction
Simplified Computation**

OMB No. 1545-0074

2025

Department of the Treasury
Internal Revenue Service

Attach to your tax return.

Attachment
Sequence No. **55**

Go to www.irs.gov/Form8995 for instructions and the latest information.

Name(s) shown on return

John E & Susan R Michaels

Your taxpayer identification number

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

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

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

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

Cat. No. 37806C

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

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

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

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

Attachment 2. Attachment to Schedule SE (Form 1040)

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

Example Two: Retired Minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2025, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by 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 2025, 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 2025, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see Schedule SE) since it represents compensation from active ministry. Rev. Green made cash contributions of \$3,500 to qualifying 501(c)(3) public charities during 2025.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that 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)

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 623 miles of business use of his car in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the 2025 standard mileage rate of 70 cents by the 623 miles driven during the year. He calculated total mileage expenses of \$436. However, he cannot deduct the part of his expenses allocable to his tax-free 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 \$150 in business meal expenses in connection with guest preaching engagements. Only a 50% deduction is allowed for business meals, so Rev. Green calculates his otherwise deductible business meals expense to be \$75 ($\$150 \times 50\%$). However, he cannot deduct 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.

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

Lines 43 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 input the total amount of otherwise deductible expenses in lines 8 through 27b and input the nondeductible figure as a negative adjustment on line 27a ("Other Expenses"). When inputting meals, the taxpayer should note that Turbo Tax automatically calculates the 50% deduction for business meal expenses. Therefore, the taxpayer should input the total amount of business meal expenses (\$150) in the "Meals while traveling for business" section. Turbo Tax will calculate the deduction on line 24b as 50% (\$75) of the total business meal expenses.

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

Schedule SE (Form 1040)

After Rev. Green prepares Schedule C, he fills out Schedule SE (Form 1040). Ministers are not church employees under this definition. Additionally, Rev. Green did not apply for an exemption from 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.

Lines 4a through 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 \$176,100, so Rev. Green 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. Green enters that amount here and on Schedule 2 (Form 1040), line 4.

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

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

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on Schedule C for ministerial services and who have 2025 taxable income less than \$197,300 (\$394,600 if 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 2025.

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

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

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

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

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

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

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

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

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

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

Form 1040, Page 2, Line 12e. Rev. Green enters his standard deduction of \$34,700 (which takes into consideration the fact he and his wife were born before January 2, 1961) on line 12e. Rev. Green takes the standard deduction since it is greater than Rev. Green's potential 2025 itemized deductions (including charitable contributions made during 2025).

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

Schedule 1-A, Lines 1 and 3. Since there are no adjustments necessary to arrive at modified adjusted gross income, Rev. Green reports the amount of adjusted gross income from Form 1040, line 11b (\$3,771) on lines 1 and 3.

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

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

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

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

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

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

Form 1040, Page 2, Lines 27 through 32. Rev. Green 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. Green does not enter any amount on line 27. Instead, he writes "No" on the dotted line next to line 27. He also does not enter any amounts on lines 28 through 32.

Form 1040, Line 37. Rev. Green subtracts line 33 (\$0) 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. In prior years, the taxpayer could manually enter the taxable amount by choosing the "General Rule" and entering the amount determined at Attachment 1 in the field. This adjustment may be available when the 2025 software is fully released.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. The Board of Pensions of the Presbyterian Church (USA) 2000 Market Street Philadelphia, PA 19103-3298 1-800-773-7752		1 Gross distribution \$ 15000.00		OMB No. 1545-0119 2025 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$		Total distribution <input type="checkbox"/>		
2b Taxable amount not determined <input checked="" type="checkbox"/>		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.
PAYER'S TIN 23-1352010	RECIPIENT'S TIN 202-20-2002	5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		
RECIPIENT'S name William K. Green Street address (including apt. no.) 787 Adams Street City or town, state or province, country, and ZIP or foreign postal code Anytown, NY 10002		7 Distribution code(s) 7	IRA/ SEP/ SIMPLE <input type="checkbox"/>	8 Other \$ %	9b Total employee contributions \$	
		9a Your percentage of total distribution %	9b Total employee contributions \$			
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$	15 State/Payer's state no.	16 State distribution \$	
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$	18 Name of locality	19 Local distribution \$	

TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040

Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return

2025

OMB No. 1545-0074

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

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

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

Your first name and middle initial Last name Your social security number William K Green 2 0 2 2 0 2 0 0 2

If joint return, spouse's first name and middle initial Last name Spouse's social security number Sarah J Green 3 0 3 3 0 3 0 0 3

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. 787 Adams Street

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. Anytown NY 10002

Foreign country name Foreign province/state/county Foreign postal code You Spouse

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

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

Table with 5 columns: (1) First name, (2) Last name, (3) SSN, (4) Relationship, (5) Check if lived with you more than half of 2025, (6) Check if (Full-time student, Permanently and totally disabled), (7) Credits (Child tax credit, Credit for other dependents).

Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income section table with rows 1a through 1z. 1a Total amount from Form(s) W-2, box 1. 1b Household employee wages not reported on Form(s) W-2. 1c Tip income not reported on line 1a. 1d Medicaid waiver payments not reported on Form(s) W-2. 1e Taxable dependent care benefits from Form 2441, line 26. 1f Employer-provided adoption benefits from Form 8839, line 31. 1g Wages from Form 8919, line 6. 1h Other earned income (see instructions). Enter type and amount: 1i Nontaxable combat pay election (see instructions).

Income section table with rows 2a through 11a. 2a Tax-exempt interest. 2b Taxable interest. 3a Qualified dividends. 3b Ordinary dividends. 4a IRA distributions. 4b Taxable amount. 5a Pensions and annuities. 5b Taxable amount. 6a Social security benefits. 6b Taxable amount. 7a Capital gain or (loss). Attach Schedule D if required. 7b Check if: Schedule D not required. Includes child's capital gain or (loss). 8 Additional income from Schedule 1, line 10. 9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income. 10 Adjustments to income from Schedule 1, line 26. 11a Subtract line 10 from line 9. This is your adjusted gross income.

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Tax and Credits

Table with 2 columns: Line number and Amount. Rows include 11b (3,771), 12a (Qualification questions), 12e (34,700), 13a (0), 13b (12,000), 14 (46,700), 15 (0), 16 (Tax), 17 (0), 18 (0), 19 (0), 20 (0), 21 (0), 22 (0), 23 (211), 24 (211).

Standard deduction for—

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

Payments and Refundable Credits

Table with 2 columns: Line number and Amount. Rows include 25 (Federal income tax withheld), 26 (2025 estimated tax payments), 27a (Earned income credit), 28 (ACTC), 29 (American opportunity credit), 30 (Refundable adoption credit), 31 (Schedule 3, line 15), 32 (Total other payments and refundable credits), 33 (Total payments).

Refund

Table with 2 columns: Line number and Amount. Rows include 34 (Overpaid), 35a (Refunded to you), 36 (Applied to 2026 estimated tax).

Amount You Owe

Table with 2 columns: Line number and Amount. Rows include 37 (Amount you owe, 211), 38 (Estimated tax penalty).

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. [] Yes. Complete below. [x] No. Designee's name, Phone no., Personal identification number (PIN).

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Your signature: William Green, Date: 3/15/26, Your occupation: Retired Minister. Spouse's signature: Sarah Green, Date: 3/15/26, Spouse's occupation: Retired.

Paid Preparer Use Only

Preparer's name, Preparer's signature, Date, PTIN, Check if: [] Self-employed, Firm's name, Firm's address, Phone no., Firm's EIN.

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SCHEDULE 1 (Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074

2025

Attachment Sequence No. 01

Department of the Treasury Internal Revenue Service

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

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

Name(s) shown on Form 1040, 1040-SR, or 1040-NR William K & Sarah J Green

Your social security number 202-20-2002

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

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

Part I Additional Income

Table with 10 main rows and sub-rows (a-z) for additional income. Includes categories like Taxable refunds, Alimony, Business income, Other gains, Rental real estate, Farm income, Unemployment compensation, and Other income (8a-8z). Total additional income is 1,877.

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Part II Adjustments to Income

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

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SCHEDULE 1-A (Form 1040)

Additional Deductions

OMB No. 1545-0074

Department of the Treasury Internal Revenue Service

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

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

2025 Attachment Sequence No. 1A

Name(s) shown on Form 1040, 1040-SR, or 1040-NR William K & Sarah J Green

Your social security number 202-20-2002

Part I Modified Adjusted Gross Income (MAGI) Amount

Table with 3 columns: Description, Amount, Total. Rows include: 1 Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b (3,771); 2a-2d Excluded income from Puerto Rico; 2e Add lines 2a, 2b, 2c, and 2d; 3 Add lines 1 and 2e (3,771).

Part II No Tax on Tips

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

Table with 3 columns: Description, Amount, Total. Rows include: 4 Qualified tips received as an employee; 5 Qualified tips received in the course of a trade or business; 6-13 Deduction calculation steps (Total: 13).

Part III No Tax on Overtime

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

Table with 3 columns: Description, Amount, Total. Rows include: 14a-14b Qualified overtime compensation; 14c Add lines 14a and 14b; 15-21 Deduction calculation steps (Total: 21).

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Part IV No Tax on Car Loan Interest

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

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

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

Part V Enhanced Deduction for Seniors

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

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

Part VI Total Additional Deductions

38	Add lines 13, 21, 30, and 37. Enter here and on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c	38	12,000
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SCHEDULE 2 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Taxes

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

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

OMB No. 1545-0074

2025 Attachment Sequence No. 02

Name(s) shown on Form 1040, 1040-SR, or 1040-NR William K & Sarah J Green

Your social security number 202-20-2002

Part I Tax

Table with 3 main columns: Description, Line Number, and Amount. Rows include: 1 Additions to tax (1a-1f, 1y), 2 Alternative minimum tax, 3 Add lines 1z and 2.

Part II Other Taxes

Table with 3 main columns: Description, Line Number, and Amount. Rows include: 4 Self-employment tax, 5 Social security and Medicare tax on unreported tip income, 6 Uncollected social security and Medicare tax on wages, 7 Total additional social security and Medicare tax, 8 Additional tax on IRAs, 9 Household employment taxes, 10 Reserved for future use, 11 Additional Medicare Tax, 12 Net investment income tax, 13 Uncollected social security and Medicare or RRTA tax, 14 Interest on tax due, 15 Interest on deferred tax, 16 Recapture of low-income housing credit.

(continued on page 2)

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Part II Other Taxes (continued)

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

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SCHEDULE C (Form 1040)

Profit or Loss From Business (Sole Proprietorship)

OMB No. 1545-0074

2025

Attachment Sequence No. 09

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065. Go to www.irs.gov/ScheduleC for instructions and the latest information.

Name of proprietor: William K Green. Social security number (SSN): 202-20-2002. Principal business: Minister. Business name: blank. Business address: 787 Adams Street, Anytown, NY 10002. Accounting method: Cash. Did you materially participate? Yes. If you started or acquired this business during 2025, check here: blank. Did you make any payments in 2025 that would require you to file Form(s) 1099? No. If "Yes," did you or will you file required Form(s) 1099? No.

Part I Income

Table with 7 rows for income items. Line 1: Gross receipts or sales, 2,000. Line 2: Returns and allowances. Line 3: Subtract line 2 from line 1, 2,000. Line 4: Cost of goods sold. Line 5: Gross profit, 2,000. Line 6: Other income. Line 7: Gross income, 2,000.

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

Table with 32 rows for expense items. Lines 8-17: Advertising, Car and truck expenses (105), Commissions and fees, Contract labor, Depletion, Depreciation and section 179 expense deduction, Employee benefit programs, Insurance, Interest (Mortgage, Other), Legal and professional services. Lines 18-27: Office expense, Pension and profit-sharing plans, Rent or lease (Vehicles, machinery, and equipment; Other business property), Repairs and maintenance, Supplies, Taxes and licenses, Travel and meals (Travel, Deductible meals (18*)), Utilities, Wages, Energy efficient commercial bldgs deduction, Other expenses. Line 28: Total expenses before expenses for business use of home, 123. Line 29: Tentative profit or (loss), 1,877. Line 30: Expenses for business use of your home. Line 31: Net profit or (loss), 1,877. Line 32: If you have a loss, check the box that describes your investment in this activity.

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*See statement attached.

**SCHEDULE SE
(Form 1040)**

Self-Employment Tax

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

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

2025
Attachment
Sequence No. **17**

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

Social security number of person
with **self-employment** income **202-20-2002**

Part I Self-Employment Tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cat. No. 11358Z

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

*See statement attached.

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

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

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

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

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

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

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

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

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

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

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

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

Attachment 2. Computation of Net Earnings from Self-Employment

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