

# A MINISTER'S SALARY

## WHO IS A MINISTER?

The IRS defines minister as: “individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. Ministers have the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed 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 social security purposes.”[1]

## MINISTERIAL INCOME AND FEDERAL TAXATION

While a minister's gross income is always subject to federal income taxation, his or her social security taxes are generally treated as self-employed and thus subject to the Self-Employment Contributions Act (SECA) taxation.[2] The following is a non-comprehensive explanation of a minister's salary in relation to federal income and SECA taxation:

### FEDERAL INCOME TAXATION

Gross Income[3]

SECA Tax

Reimbursement[4]

### SECA TAXATION

Gross Income[3]

Housing Allowance[4]

### NONTAXABLE FRINGE BENEFITS

Contributions to certain church sponsored retirement plan[5]

Group Health Insurance Premiums[6]

Long-Term Care Premiums[6]

Group Term-Life Insurance Premiums (up to \$50,000 of coverage)[6]

This is for general informational purposes only and does not provide any tax advice. Neither Shepherd's Financial, LLC, New York Life Insurance Company, nor its agents, provide tax, legal, or accounting advice. Please consult your own tax, legal, or accounting professional before making any decisions.



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## Endnotes

[1] IRS Publication 517 (2023), p. 3.

[2] IRS Publication 517 (2023), p. 2; IRS Tax Guide for Churches & Religious Organizations, p. 21. A minister's gross income may be subject to state income taxes, depending on the state in which he or she lives.

[3] IRS Tax Guide for Churches & Religious Organizations, p. 22–23, “A minister who is furnished a parsonage may exclude from income the fair rental value of the parsonage, including utilities . . . A minister who receives a housing allowance may exclude the allowance from gross income to the extent it’s used to pay expenses in providing a home. Generally, those expenses include rent, mortgage payments, utilities, repairs and other expenses directly relating to providing a home. If a minister owns a home, the amount excluded from the minister’s gross income as a housing allowance is limited to the least of: (a) the amount actually used to provide a home, (b) the amount officially designated as a housing allowance or (c) the fair rental value of the home. The minister’s church or other qualified organization must designate the housing allowance by official action taken in advance of the payment. [However, r]etired ministers who receive either a parsonage or housing allowance aren’t required to include the amounts for SECA tax purposes . . . The fair rental value of a parsonage or housing allowance is excludable from income only for income tax purposes. These amounts are not excluded in determining the minister’s net earnings from self-employment for Self-Employment Contributions Act (SECA) tax purposes.”

[4] According to Rev. Ruling 68-507; 1968-2 C.B. 485, “To the extent that the church pays any amount toward the minister's obligation for income tax or self-employment tax other than from the minister's salary, the minister is in receipt of additional income that is includible in his gross income and must be considered in determining his income tax and self-employment tax liability.”

[5] Section 107 of the Internal Revenue Code of 1986; Revenue Ruling 63-156, 1963-2 C.B. 79; 75-22, 1975-1 C.B. 49; Revenue Ruling 2010-0228. IRS Publication 517 (2023), p. 8, “Amounts not included in gross income. Don't include the following amounts in gross income when figuring your net earnings from self-employment . . . Contributions by your church to a tax-sheltered annuity plan set up for you, including salary reduction contributions (elective deferrals) that aren’t included in your gross income.”

[6] Section 106 (a) of the Internal Revenue Code of 1986.

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