



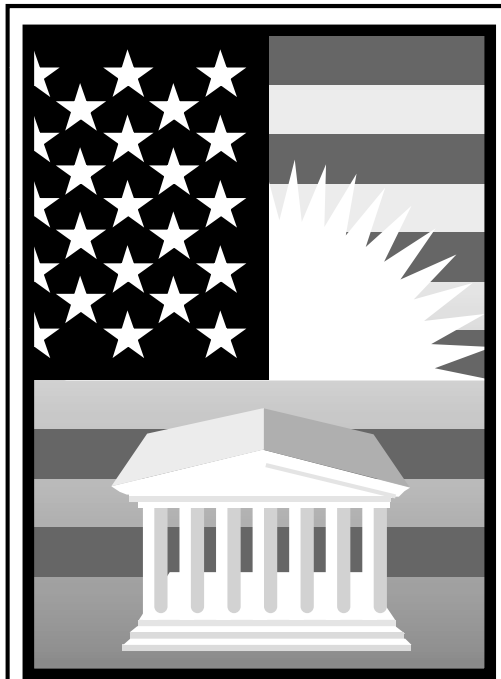
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Social Security and Other Information for Members of the Clergy and Religious Workers

For use in preparing
1999 Returns



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Important Changes for 1999

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

Increased self-employed health insurance deduction. The self-employed health insurance deduction increased from 45% to 60% of the cost of the insurance. See *Health Insurance Costs of Self-Employed Ministers*.

Introduction

Social security and Medicare taxes are collected under two systems. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the taxes. Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the taxes. No earnings are subject to both systems.

This publication covers the following topics about the collection of social security and Medicare taxes from members of the clergy and religious workers:

- Which earnings are taxed under SECA and which under FICA,
- How a member of the clergy (minister, member of religious order, or Christian Science practitioner) can apply for an exemption from self-employment tax, and
- How to figure net earnings from self-employment.

This publication also covers certain income tax rules of interest to the clergy.

A comprehensive example shows filled-in forms for a minister who has income taxed

under SECA, other income taxed under FICA, and income tax reporting of items specific to the clergy.

Note. In this publication the term "church" is generally used in its generic sense and not in reference to any particular religion.

Useful Items

You may want to see:

Publication

- 525** Taxable and Nontaxable Income
- 529** Miscellaneous Deductions
- 533** Self-Employment Tax
- 535** Business Expenses
- 590** Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- 596** Earned Income Credit

Form (and Instructions)

- SS-8** Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding
- SS-16** Certificate of Election of Coverage Under the Federal Insurance Contributions Act
- Schedule SE (Form 1040)** Self-Employment Tax
- 1040-ES** Estimated Tax For Individuals
- 1040X** Amended U.S. Individual Income Tax Return
- 4029** Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
- 4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

Ordering publications and forms. See *How To Get More Information*, near the end of this publication, for information about getting these publications and forms.

Social Security Coverage

The services you perform in the exercise of your ministry are covered by social security and Medicare under SECA. Your earnings for these services are subject to self-employment tax (SE tax) unless one of the following applies.

- 1) You are a member of a religious order who has taken a vow of poverty.
- 2) You request and receive from the Internal Revenue Service (IRS) an exemption from SE tax for the services. See *Exemption From Self-Employment (SE) Tax*, later.
- 3) You are subject only to the social security laws of a foreign country under the provisions of a social security agreement

between the United States and that country. For more information, see *Binational Social Security (Totalization) Agreements* in Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Your earnings that are not from the exercise of your ministry may be subject to social security tax under FICA or SECA according to the rules that apply to taxpayers in general. See *Qualified Services*, later.

Ministers

If you are a minister of a church, your earnings for the services you perform in your capacity as a minister are subject to SE tax unless you have requested and received an exemption. See *Exemption From Self-Employment (SE) Tax*, later. This is true whether you are an employee of your church or a self-employed person under the common law rules. For the specific services covered, see *Qualified Services*, later.

Ministers Defined

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 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.

Employment Status for Other Tax Purposes

Even though you are considered a self-employed individual in performing your ministerial services for social security tax purposes, you may be considered an employee for income or retirement plan tax purposes. For income or retirement plan tax purposes, some of your income may be considered income from self-employment and other income may be considered income from wages.

Common-law employee. Under common law rules, you are considered an employee or a self-employed person depending on all the facts and circumstances. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action. For more information about the common-law rules, get Publication 15-A, *Employer's Supplemental Tax Guide*.

If you are employed by a congregation for a salary, you are generally a common-law employee and income from the exercise of your ministry is considered income from wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are considered income from self-employment.

Example. A church hires and pays you a salary to perform ministerial services subject to its control. Under the common law rules, you are an employee of the church while performing those services.

Form SS-8. If you are not certain whether you are an employee or a self-employed person, you can get a determination from the IRS by filing Form SS-8.

Members of Religious Orders

If you are a member of a religious order who has **not** taken a vow of poverty, your earnings for required services you performed as a member of the order are subject to SE tax. This does not apply if you have requested and received an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later. To see which services are considered required, see *Qualified Services*, later.

Vow of poverty. If you are a member of a religious order who has taken a vow of poverty, you are **exempt** from paying SE tax on your earnings for required services you perform as an agent of your church or its agencies. For income tax purposes, the earnings are tax free to you. Your earnings are considered the income of the religious order.

Exception. Even if you have taken a vow of poverty, the services you perform for your church or its agencies may be covered under social security. Your services are covered if your order, or an autonomous subdivision of the order, elects social security coverage for its current and future vow-of-poverty members.

The order or subdivision elects coverage by filing Form SS-16. It can elect coverage for certain vow-of-poverty members for a retroactive period of up to 20 calendar quarters before the quarter in which it files the certificate. If the election is made, the order or subdivision pays both the employer's and employee's share of the tax. You do not pay.

Services performed outside the order. Even if you are a member of a religious order who has taken a vow of poverty and is required to turn over to the order amounts you earn, your earnings are subject to federal income tax withholding and employment (FICA) tax if you:

- 1) Work for an organization outside your religious community, and
- 2) Perform work that is not required by, or done on behalf of, the order.

In this case, you are considered an employee of that outside organization. You may, however, be able to take a charitable deduction for the amount you turn over to the order. See Publication 526, *Charitable Contributions*.

Lay employees. Lay employees are generally covered by social security. But see *Election to Exclude Employees From FICA Coverage*, later, under *Religious Workers*.

Rulings. Organizations and individuals may request rulings from the IRS on whether they are religious orders, or members of a religious order, for FICA tax, SE tax, and federal income tax withholding purposes. To request a ruling, follow the procedures in Revenue Procedure 99-1. Revenue Procedure 99-1 is

published in Internal Revenue Bulletin 1999-1.

You can read this Revenue Procedure at most IRS offices or purchase a copy of the Bulletin by writing to:

Superintendent of Documents
U.S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954.

Christian Science Practitioners and Readers

Your earnings from services you performed in your profession as a Christian Science practitioner or reader are generally subject to SE tax. However, you can request an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later.

Practitioners. Christian Science practitioners are members in good standing of the Mother Church, The First Church of Christ Scientist, in Boston, Massachusetts, who practice healing according to the teachings of Christian Science. Christian Science practitioners are specifically exempted from licensing by state laws.

Some Christian Science practitioners also are Christian Science teachers or lecturers. Income from teaching or lecturing is considered the same as income from their work as practitioners.

Readers. Christian Science readers are considered the same as ordained, commissioned, or licensed ministers.

Religious Workers (Employees)

If you are a religious worker (an employee) and are not in one of the classes already discussed, your wages are generally subject to social security and Medicare tax (FICA) and not to SE tax. Some exceptions are discussed next.

Election To Exclude Employees From FICA Coverage

Churches and qualified church-controlled organizations (church organizations) can elect not to have their employees covered by FICA. To make the election, the church or church organization must certify to the IRS that, for religious reasons, it is opposed to paying employment taxes.

Making the election. To make this election, churches and church organizations file two copies of Form 8274, *Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes*. They file this after employees are hired, but before the first date on which a quarterly employment tax return is due (or would be due except for this election).

Revoking the election. The church or church organization can revoke this election. The revocation cannot be later reversed. Also, the IRS can revoke the election if certain filing requirements for information returns are not met.

Table 1. The Self-Employment Tax Exemption Application and Approval Process

Who Can Apply	Ministers, Members of Religious Orders, and Christian Science Practitioners	Member of Recognized Religious Sect
How	File Form 4361	File Form 4029
When	File by the due date (plus extensions) of your tax return for the second tax year with at least \$400 of net earnings from self-employment (at least part from qualified services)	File anytime
Approval	If approved, you will receive an approved copy of Form 4361	If approved, you will receive an approved copy of Form 4029
Effective Date	For all tax years after 1967 with at least \$400 of net earnings from self-employment	First day of first quarter after the quarter in which Form 4029 was filed

Effect of election on employees. If you are an employee (other than a minister or member of a religious order) of a church or church organization that makes this election and they pay you \$108.28 or more in wages, you must pay SE tax on those wages.

Election by Employees of Churches, etc., Who Choose Not To Pay Social Security Taxes

You may be able to choose to be exempt from social security and Medicare taxes, including the SE tax, if you work for a church (or church-controlled non-profit division) that does not pay the employer's part of the social security tax on wages. You can make the choice if you are a member of a religious sect or division opposed to social security and Medicare. This exemption does not apply to your service, if any, as a minister of a church or as a member of a religious order.

You can make this choice by filing Form 4029. See *Requesting Exemption — Form 4029*, later, under *Members of Recognized Religious Sects*.

Employee and employer opposed to social security and Medicare participation. If you and your employer (or, if your employer is a partnership, each partner) are members of a religious sect or division opposed to social security and Medicare participation, you each can apply for exemption from the social security and Medicare taxes imposed on wages. See *Exemption From FICA Taxes*, later.

U.S. Citizens, Resident and Nonresident Aliens

To be covered under the SE tax provisions (SECA), individuals generally must be citizens or resident aliens of the United States. Nonresident aliens are not covered under SECA.

To determine your alien status, see Publication 519, *U.S. Tax Guide for Aliens*.

Residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa. Residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa, who are not U.S. citizens, are treated the same as citizens or resident aliens of the United States for SE tax purposes. For information on figuring the tax, see *Figuring Net Earnings From Self-Employment for SE Tax*, later.

Exemption From Self-Employment (SE) Tax

Members of religious orders who have not taken a vow of poverty, ministers, and Christian Science practitioners can request an exemption from SE tax.

Members of a recognized religious sect or a division of it can also apply for an exemption from the SE tax. For the rules that apply to this exemption, see *Members of Recognized Religious Sects*, later.

TIP *Members of religious orders who have taken a vow of poverty are exempt from paying SE tax, as discussed earlier under Members of Religious Orders. They do not have to request the exemption.*

Who cannot be exempt? If you elected before 1968 to be covered under social security for your ministerial services, you are still covered. You cannot be exempt from SE tax.

If you elected to be covered by social security by filing Form 2031 for your 1986 or 1987 tax year, you cannot be exempt from SE tax.

Requesting exemption. Table 1 briefly summarizes the procedure for requesting exemption from the SE tax. More detailed explanations follow.

CAUTION *An approved exemption only applies to earnings you receive for qualified services, discussed later. It does not apply to any other SE income.*

Ministers, Members of Religious Orders, and Christian Science Practitioners

To claim the exemption from SE tax, you must meet all of the following conditions.

- 1) You file Form 4361, described later under *Requesting exemption — Form 4361*.
- 2) You are conscientiously opposed to public insurance because of your individual religious considerations (not be-

cause of your general conscience), or be opposed because of the principles of your religious denomination.

- 3) You file for other than economic reasons.
- 4) You inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty member). This requirement does **not** apply to Christian Science practitioners.
- 5) You establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization.
- 6) You establish that the organization is a church or a convention or association of churches.
- 7) You sign and return the statement the IRS mails to you to certify that you are requesting an exemption based on the grounds listed on the statement.

Requesting exemption— Form 4361. To request exemption from SE tax, file Form 4361 in triplicate.



The IRS will return to you a copy of the Form 4361 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

When to file. File Form 4361 by the date your income tax return is due, including extensions, for the second tax year in which you have net earnings from self-employment of at least \$400. This rule applies if any part of your net earnings for each of the two years came from your services as a:

- Minister,
- Member of a religious order, or
- Christian Science practitioner.

The two years do not have to be consecutive tax years.



Because the approval process can take some time, you should file Form 4361 as soon as possible.

Example 1. Rev. Lawrence Jaeger, a clergyman ordained in 1999, has net earnings of \$450 in 1999 and \$500 in 2000. He must file his application for exemption by the due date, including extensions, for his 2000 income tax return. However, if Rev. Jaeger does not receive his exemption by April 17, 2000, his SE tax for 1999 is due by that date.

Example 2. Rev. Louise Wolfe has \$300 in net earnings as a minister in 1999, but earned more than \$400 in both 1998 and 2000. She must file her application for exemption by the due date, including extensions, for her 2000 income tax return. However, if she did not receive the exemption by April 15, 1999, her SE tax for 1998 was due by that date.

Example 3. In 1997, Rev. David Moss was ordained a minister and had \$700 in net earnings as a minister. In 1998, he received \$1,000 as a minister, but his related expenses were over \$1,000. Therefore, he had no net earnings as a minister in 1998. Also in 1998,

he opened a book store and had \$8,000 in net self-employment earnings from the store. In 1999, he had net earnings of \$1,500 as a minister and \$10,000 net SE earnings from the store.

Because Rev. Moss had net earnings from self-employment in 1997 and 1999 that were \$400 or more each year, and part of the earnings in each of those years was for his services as a minister, he must file his application for exemption by the due date, including extensions, for his 1999 income tax return.

Death of individual. The right to file an application for exemption ends with an individual's death. A surviving spouse, executor, or administrator cannot file an exemption application for a deceased clergy member.

Effective date of exemption. An approved exemption is effective for all tax years after 1967 in which you have \$400 or more of net earnings from self-employment and any part of the earnings is for services as a member of the clergy. Once the exemption is approved, it is irrevocable.

Example. Rev. Trudy Austin, ordained in 1998, had \$400 or more in net earnings as a minister in both 1998 and 1999. She files an application for exemption on February 15, 2000. If an exemption is granted, it is effective for 1998 and the following years.

Refunds of SE tax. If, after receiving an approved Form 4361, you find that you overpaid SE tax, you can file a claim for refund on Form 1040X before the period of limitations ends. This is generally within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed, or tax you paid, before the due date is considered to have been filed or paid on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund will not be more than the tax you paid within the 2 years immediately before you file the claim.

Members of Recognized Religious Sects

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from payment of social security and Medicare taxes.

Exception. If you received social security benefits or payments, or anyone else received these benefits or payments based on your wages or SE income, you cannot apply. However, if you pay your benefits back, you may be considered for exemption. Contact your local Social Security office to find out the amount to be paid back.

Eligibility requirements. To claim this exemption from SE tax, **all** the following requirements must be met.

- 1) You must file Form 4029, discussed later under *Requesting exemption — Form 4029*.
- 2) As a follower of the established teachings of the sect or division, you must be conscientiously opposed to accepting benefits of any private or public

insurance that makes payments for death, disability, old age, retirement, or medical care, or provides services for medical care.

- 3) You must waive all rights to receive any social security payment or benefit and agree that no benefits or payments will be made to anyone else based on your wages and SE income.
- 4) The Commissioner of Social Security must determine that:
 - a) Your sect or division has the established teachings as in (2) above,
 - b) It is the practice, and has been for a substantial period of time, for members of the sect or division to provide for their dependent members in a manner that is reasonable in view of the members' general level of living, and
 - c) The sect or division has existed at all times since December 31, 1950.

If you have previously received approval for exemption from SE tax, you are considered to have met the requirements and do not need to apply for this exemption.

Requesting exemption — Form 4029. To request the exemption, file Form 4029 in triplicate with the Social Security Administration at the address shown on the form. The sect or division must complete part of the form.



The IRS will return to you a copy of the Form 4029 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

When to file. You can file Form 4029 at any time.

Effective date of exemption. An approved exemption generally is effective on the first day of the first quarter after the quarter in which Form 4029 is filed. It does not apply to any tax year beginning before you meet the eligibility requirements discussed earlier.

The exemption will end if you fail to meet the eligibility requirements or if the Commissioner of Social Security determines that the sect or division fails to meet them. You must notify the IRS within 60 days if you are no longer a member of the religious group, or if you no longer follow the established teachings of this group. The exemption will end on the date you notify the IRS.

Refunds of SE tax paid. For information on requesting refunds, see *Ministers, Members of Religious Orders, and Christian Science Practitioners*, earlier.

Exemption From FICA Taxes

Generally, under FICA, the employer and the employee each pay half of the social security and Medicare tax. Both the employee and the employer, if they meet the eligibility requirements discussed earlier, can apply to be exempt from their share of FICA taxes on wages paid by the employer to the employee.



If the employers application is approved, the exemption will apply only to FICA taxes on wages paid to employees who also received an approval of identical applications.

Information for employers. If you have an approved Form 4029 and you have an employee who has an approved Form 4029, do not report wages you paid to the employee as social security and Medicare wages.

A partnership in which each partner holds a religious exemption from social security and Medicare is an employer for this purpose.

Form W-2. When preparing a Form W-2 for an employee with an approved Form 4029, write "Form 4029" in the box marked "Other." Do not make any entries in box 3, 4, 5, or 6.

Forms 941 and 943. Do not include these exempt wages on Form 941, *Employer's Quarterly Federal Tax Return*, or on Form 943, *Employer's Annual Tax Return for Agricultural Employees*, if you have received an approved Form 4029.

On Form 941, write "Form 4029" to the left of the entry spaces on the lines for "Taxable social security wages," "Taxable social security tips," and "Taxable Medicare wages and tips." Check the box on line 8 to show that the wages are not subject to these taxes.

On Form 943, write "Form 4029" to the left of the entry spaces on the lines for "Total wages subject to social security taxes," and "Total wages subject to Medicare taxes."

If you have employees who do not have an approved Form 4029, you must withhold the employee's share of social security and Medicare taxes and pay the employers share.

Effective date. An approved exemption from FICA becomes effective on the first day of the first calendar quarter after the quarter in which Form 4029 is filed. The exemption will end on the last day of the calendar quarter before the quarter in which the employer, employee, sect, or division fails to meet the requirements.

Qualified Services

Qualified services, in general, are the services you perform in the exercise of your ministry or in the exercise of your duties as required by your religious order. Income you receive for performing qualified services is subject to SE tax unless you have an exemption as explained earlier. If you have an exemption, only the income you receive for performing qualified services is exempt. The exemption does not apply to any other SE income.

The following discussions provide more detailed information on qualified services of ministers, and members of religious orders, and Christian Science practitioners and readers.

Ministers

Most services you perform as a minister, priest, rabbi, etc., are qualified services. These services include:

- 1) Performing sacerdotal functions,
- 2) Conducting religious worship, and
- 3) Controlling, conducting, and maintaining religious organizations, boards, societies, and other integral agencies that are under the authority of a religious body that is a church or denomination.

You are considered to control, conduct, and maintain a religious organization if you direct, manage, or promote the organization's activities.

A religious organization is under the authority of a religious body that is a church or denomination if it is organized for and dedicated to carrying out the principles of a faith according to the requirements governing the creation of institutions of the faith.

Services for nonreligious organizations. Your services for a nonreligious organization are qualified services if the services are assigned or designated by your church. Assigned or designated services qualify even if they do not involve performing sacerdotal functions or conducting religious worship.

If your services are not assigned or designated by your church, they are qualified services only if they involve performing sacerdotal functions or conducting religious worship.

Services that are not part of your ministry. Income from services that are not qualified services is generally subject to social security tax withholding (not self-employment tax) under the rules that apply to workers in general. The following are not qualified services.

- 1) Services you perform for nonreligious organizations other than the services stated earlier.
- 2) Services you perform as a duly ordained, commissioned, or licensed minister of a church as an employee of the United States, the District of Columbia, a foreign government, or any of their political subdivisions. This is true even if you are performing sacerdotal functions or conducting religious worship. (For example, if you perform services as a chaplain in the Armed Forces of the United States, the services are not qualified services.)
- 3) Services you perform in a government-owned and operated hospital. (These services are considered performed by a government employee, not by a minister as part of the ministry.) However, services that you perform at a church-related hospital or health and welfare institution, or a private nonprofit hospital, are considered to be part of the ministry.

Books or articles. Writing religious books or articles is considered to be in the exercise of your ministry.

This rule also applies to members of religious orders and to Christian Science practitioners.

Members of Religious Orders

Services you perform as a member of a religious order in the exercise of duties required by the order are qualified services. The services are qualified because you perform them as an agent of the order.

For example, if you are directed to perform services for another agency of the supervising church or an associated institution, you are considered to perform the services as an agent of the order.

However, if you are directed to work outside the order, the employment will not be considered a duty required by the order unless:

- Your services are the kind that are ordinarily performed by members of the order, and

- Your services are part of the duties that must be exercised for, or on behalf of, the religious order as its agent.

Effect of employee status. Ordinarily, if your services are not considered directed or required of you by the order, you and the outside party for whom you work are considered employee and employer. In this case, your earnings from the services are taxed under the rules that apply to workers in general, not under the rules for services provided as agent for the order. This is true even if you have taken a vow of poverty.

Example. Mark Brown and Elizabeth Green are members of a religious order and have taken vows of poverty. They renounce all claims to their earnings. The earnings belong to the order.

Mark is a licensed attorney. The superiors of the order instructed him to get a job with a law firm. Mark joined a law firm as an employee and, as he requested, the firm made the salary payments directly to the order.

Elizabeth is a secretary. The superiors of the order instructed her to accept a job with the business office of the church that supervises the order. Elizabeth took the job and gave all her earnings to the order.

Mark's services **are not** duties required by the order. His earnings are subject to social security and Medicare tax under FICA and Federal income tax.

Elizabeth's services **are** considered duties required by the order. She is acting as an agent of the order and not as an employee of a third party. She does not include the earnings in gross income, and they are not subject to income tax withholding, social security and Medicare tax, or SE tax.

Christian Science Practitioners and Readers

The exemption from SE tax, discussed earlier, applies only to the services a Christian Science practitioner or reader performs in the exercise of that profession. If you do not have an exemption, amounts you receive for performing these qualified services are subject to SE tax.

Figuring Net Earnings From Self-Employment for SE Tax

There are three methods for figuring your net earnings from self-employment:

- Regular method,
- Farm optional method, or
- Nonfarm optional method.

Regular Method

Most people use the regular method. Under this method, you figure your net earnings from self-employment by totaling your gross income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or Christian Science practitioner. Then you subtract your allowable business deductions and multiply the difference by .9235 (92.35%). Use

Schedule SE (Form 1040) to figure your net earnings and SE tax.

If you are an employee of the church that elected to exclude you from FICA coverage, figure net earnings by multiplying your church wages shown on Form W-2 by .9235. Do not reduce your wages by any business deductions when making this computation. Use Section B of Schedule SE to figure your net earnings and SE tax.



If you have an approved exemption, or you are automatically exempt, do not include the income or deductions from qualified services in figuring your net earnings from self-employment.

For more information on net earnings from self-employment, get Publication 533.

Gross income. To figure your net earnings from self-employment (on Schedule SE (Form 1040)), include in gross income:

- Salaries and fees for your qualified services (discussed earlier),
- Offerings you receive for marriages, baptisms, funerals, masses, etc.,
- The value of meals and lodging provided to you, your spouse, and your dependents for your employers convenience,
- The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you, and
- Any amount a church pays toward your income tax or SE tax, other than withholding the amount from your salary. This amount is also subject to income tax.

Example. Pastor Roger Adams receives an annual salary of \$16,500 as a full-time minister. The \$16,500 includes \$1,500 that is designated as a rental allowance to pay utilities. His church owns a parsonage that has a fair rental value of \$5,200 per year. Pastor Adams is given the use of the parsonage. He is not exempt from SE tax. He must include \$21,700 (\$16,500 plus \$5,200) when figuring net earnings from self-employment.

The results would be the same if, instead of the use of the parsonage and receipt of the rental allowance for utilities, Pastor Adams had received an annual salary of \$21,700 of which \$6,700 (\$1,500 plus \$5,200) per year was designated as a rental allowance.

For the income tax treatment of these amounts, see *Exclusion of Rental Allowance and Fair Rental Value of a Parsonage under Income Tax: Income and Expenses*, later.

Overseas duty. Your net earnings from self-employment are determined without any foreign earned income exclusion or the foreign housing exclusion or deduction if you are a U.S. citizen or resident alien who is serving abroad and living in a foreign country.

Example. Paul Jones was the minister of a U.S. church in Mexico. He earned \$22,000 and was able to exclude it all for income tax purposes under the foreign earned income exclusion. However, Mr. Jones must include \$22,000 when figuring net earnings from self-employment.

For information on excluding foreign earned income or the foreign housing amount, get Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Specified U.S. possessions. The exclusion from gross income for amounts derived in Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands does not apply in computing net earnings from self-employment. Also see *Residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa*, earlier, under *U.S. Citizens, Resident and Nonresident Aliens*.

Amounts not included in gross income. Do not include the following amounts in gross income when figuring your net earnings from self-employment.

- Offerings that others made to the church.
- Contributions by your church to an annuity plan set up for you, including any salary reduction, that are not included in your gross income.
- Pension payments or retirement allowances you receive for your past qualified services.

Allowable deductions. When figuring your net earnings from self-employment, deduct all your nonemployee ministerial expenses. Also, deduct all your allowable unreimbursed trade or business expenses that you incur in performing ministerial services as a common law employee of the church. Include this net amount on line 2 of Schedule SE (Form 1040).

Reimbursement arrangements. If you received an advance, allowance, or reimbursement for your expenses, how you report this amount and your expenses depends on whether the reimbursement was paid to you under an accountable plan or a nonaccountable plan. If you are not sure if you are reimbursed from an accountable plan or a nonaccountable plan, ask your employer.

Accountable plans. To be an accountable plan, your employers reimbursement arrangement must include all three of the following rules.

- 1) Your expenses must have a business connection — that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
- 2) You must adequately account to your employer for these expenses within a reasonable period of time.
- 3) You must return any excess reimbursement or allowance within a reasonable period of time.

Generally, if your expenses equal your reimbursement, you have no deduction and the reimbursement is not reported on your Form W-2. If your expenses are more than your reimbursement, you can deduct your excess expenses for SE tax and income tax purposes.

Nonaccountable plan. A nonaccountable plan is a reimbursement arrangement that does not meet one or more of the three rules listed under *Accountable plans*. In addition, even if your employer has an accountable plan, the following payments will be treated as being paid under a nonaccountable plan.

- 1) Excess reimbursements you fail to return to your employer.

- 2) Reimbursement of nondeductible expenses related to your employers business.

Your employer will combine any reimbursement paid to you under a nonaccountable plan with your wages, salary, or other compensation. Your employer will report the combined total in box 1 of your Form W-2. You can deduct your related expenses (for SE and income tax purposes) regardless of whether they are more than, less than, or equal to your reimbursement.

For more information on accountable and nonaccountable plans get Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Husband and Wife Missionary Team

If a husband and wife are both duly ordained, commissioned, or licensed ministers of a church and have an agreement that each will perform specific services for which they are paid jointly or separately, they must divide the SE income according to the agreement.

If the agreement is with one spouse only and the other spouse is not paid for any specific duties, amounts received for their services are included in only the SE income of the spouse having the agreement.

Maximum Earnings Subject to SE Tax

For 1999, the maximum net earnings from self-employment subject to social security (old age, survivor, and disability insurance) tax is \$72,600 minus any wages and tips you earned that were subject to social security tax. The tax rate is 12.4%. All of your net earnings are subject to the Medicare (hospital insurance) part of the SE tax. The tax rate is 2.9%.

Optional Methods

You may be able to use an optional method for figuring your net earnings from self-employment. In general, the optional methods are intended to permit continued coverage for social security and Medicare purposes when your income for the tax year is low.

There is an optional method for farmers and an optional method for nonfarm businesses. If you are in farm and nonfarm businesses, you may qualify for both options.

Farm optional method. If you are in the farming business, you may be able to use the farm optional method. For more information on the farm optional method, see Publication 533.

Nonfarm optional method. You may use the nonfarm optional method for nonfarm SE income if you meet *all* of the following tests.

- 1) Your net nonfarm profits are less than \$1,733.
- 2) Your net nonfarm profits are less than 72.189% of your total gross income from nonfarm self-employment.
- 3) You are self-employed or a partner on a regular basis. This means that your actual net earnings from self-employment are \$400 or more in at least 2 of the 3 tax years before the one for which you use this method.

- 4) You have not previously used this method more than 4 years (there is a 5-year lifetime limit). The years do not have to be consecutive.

If you meet these four tests, you may report the smaller of two-thirds of the gross income from your nonfarm business, or \$1,600 as your net earnings from self-employment.



You may not report less than your actual net earnings from nonfarm self-employment.

Income Tax: Income and Expenses

Some income and expense items are treated the same for income tax and SE tax purposes and some are treated differently.

Income Items

The tax treatment of offerings and fees, outside earnings, rental allowances, rental value of parsonage, pay of members of religious orders, and foreign earned income is discussed here.

Offerings and Fees

If you are a member of the clergy, you must include in your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your salary. If the offering is made to the religious institution, it is not taxable to you.

Outside Earnings

If you are a member of a religious organization and you give your outside earnings to the organization, you still must include the earnings in your income. However, you may be entitled to a charitable contribution deduction for the amount paid to the organization. Get Publication 526.

Exclusion of Rental Allowance and Fair Rental Value of a Parsonage

Ordained, commissioned, or licensed ministers of the gospel may be able to exclude the rental allowance or fair rental value of a parsonage that is provided to them as pay for their services. Services include:

- Qualified services, discussed earlier,
- Administrative duties and teaching at theological seminaries, and
- The ordinary duties of a minister performed as an employee of the United States (other than as a chaplain in the Armed Forces), a state, possession, political subdivision, or the District of Columbia.

This exclusion applies only for income tax purposes. It does not apply for SE tax purposes, as discussed earlier under *Figuring Net Earnings From Self-Employment for SE Tax*.

Rental allowances. If you receive in your pay an amount officially designated as a rental allowance, you can exclude the allowance from your gross income if:

- 1) The amount is used to provide or rent a home, and
- 2) The amount is not more than reasonable pay for your services.

The term "rental allowance" includes an amount to pay utility costs.

Fair rental value of parsonage. You can exclude from gross income the fair rental value of a house or parsonage, including utilities, furnished to you as part of your pay. However, the exclusion cannot be more than the reasonable pay for your services. If you pay for the utilities, you can exclude any allowance designated for utility costs, up to your actual cost.

Example. Rev. Joanna Baker is a full-time minister at the Central Mission Church. The church allows her to use the parsonage that has an annual fair rental value of \$4,800. The church pays her an annual salary of \$13,200, of which \$1,200 is designated for utility costs. Her utility costs during the year were \$1,000.

For income tax purposes, Rev. Baker excludes \$5,800 from gross income (the fair rental value of the parsonage plus \$1,000 from the allowance for utility costs). She will report \$12,200 (\$12,000 salary and \$200 of unused utility allowance). Her income for SE tax purposes, however, is \$18,000 (\$13,200 salary + \$4,800 fair rental value of the parsonage).

Home ownership. If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following:

- The amount actually used to provide a home,
- The amount officially designated as a rental allowance, or
- The fair rental value of the home, including furnishings, utilities, garage, etc.

You must include in gross income the amount of any rental allowance that is more than the smallest of your reasonable pay, the fair rental value of the home plus utilities, or the amount actually used to provide a home.



You may deduct the home mortgage interest and real estate taxes you pay on your home even though all or part of the mortgage is paid with funds you get through a tax-free rental or parsonage allowance.

Retired ministers. If you are a retired minister, you exclude from your **gross income** the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.

Self-employment earnings. If you are a retired minister, you can exclude from your net earnings from self-employment the rental value of a parsonage or a parsonage allow-

ance you are provided after you retire. This rule applies whether or not you can exclude the amount for income tax purposes. You can also exclude from your net earnings from self-employment any retirement benefits you receive from a church plan.

Theological students. If you are a theological student serving a required internship as a part-time or assistant pastor, you cannot exclude a parsonage or rental allowance from your income unless you are ordained, commissioned, or licensed as a minister.

Traveling evangelists. You can exclude a designated rental allowance from out-of-town churches if you meet all of the following requirements.

- 1) You are an ordained minister.
- 2) You perform qualified services at churches located away from your community.
- 3) You actually use the rental allowance to maintain your permanent home.

Cantors. If you have a bona fide commission and your congregation employs you on a full-time basis to perform substantially all the religious functions of the Jewish faith, you can exclude a rental allowance from your gross income.

Pay — Members of Religious Orders

Your pay may be exempt from both income tax and SE tax if you are a member of a religious order who:

- Has taken a vow of poverty,
- Receives pay for services performed as an agent of the order and in the exercise of duties required by the order, and
- Renounces the pay and gives it to the order.

See *Members of Religious Orders*, earlier, under *Social Security Coverage*.

Foreign Earned Income

Certain income may be exempt from income tax if you work in a foreign country or in a specified U.S. possession. Publication 54 discusses the foreign earned income exclusion. Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*, covers the rules for taxpayers in U.S. possessions. You may get these free publications from the Internal Revenue Service or from most U.S. Embassies or consulates.

Expense Items

The tax treatment of ministerial trade or business expenses, expenses allocable to tax-free income, and health insurance costs is discussed here.

Ministerial Trade or Business Expenses as an Employee

When you figure your income tax, you must itemize your deductions on Schedule A (Form 1040) to claim allowable deductions for ministerial trade or business expenses incurred while working as an employee. You may also have to file Form 2106, *Employee Business Expenses* (or Form 2106-EZ).

These expenses are claimed as miscellaneous itemized deductions and are subject to the 2% of adjusted gross income (AGI) limit. See Publication 529 for more information on this limit.

Additionally, these expenses may have to be reduced by the amount that is allocable to tax-free income (discussed next) before being limited by the 2% AGI limit.

Expenses Allocable to Tax-Free Income

If you receive a rental or parsonage allowance that is exempt from income tax (tax-free), you must allocate a portion of the expenses of operating your ministry to that tax-free income. You cannot deduct the portion of your expenses that is allocated to your tax-free rental or parsonage allowance.

Exception. This rule does not apply to your deductions for home mortgage interest or real estate taxes on your home.

Figuring the allocation. Figure the portion of your otherwise deductible expenses that you cannot deduct (because that portion must be allocated to tax-free income) by multiplying the expenses by the following fraction:

Tax-free rental or parsonage allowance

All income (taxable and tax-free) earned from your ministry

When figuring the allocation, include the income and expenses related to the ministerial duties you perform both as an employee and as a self-employed person.



Reduce your otherwise deductible expenses only in figuring your income tax, not your SE tax.

Example. Rev. Charles Ashford received \$40,000 in ministerial earnings consisting of a \$28,000 salary for ministerial services, \$2,000 for weddings and baptisms, and a \$10,000 tax-free parsonage allowance. He incurred \$4,000 of unreimbursed expenses connected with his ministerial earnings. \$3,500 of the \$4,000 is related to his ministerial salary, and \$500 is related to the weddings and baptisms he performed as a self-employed person.

The nondeductible portion of expenses related to Rev. Ashford's ministerial salary is figured as follows:

$$\frac{\$10,000}{\$40,000} \times \$3,500 = \$875$$

The nondeductible portion of expenses related to Rev. Ashford's wedding and baptism income is figured as follows:

$$\frac{\$10,000}{\$40,000} \times \$500 = \$125$$

Required statement. If you receive a tax-free rental or parsonage allowance and have ministerial expenses, attach a statement to your tax return. The statement must contain all of the following information.

- 1) A list of each item of taxable ministerial income by source (such as wages, salary, weddings, baptisms, etc.) plus the amount.

- 2) A list of each item of tax-free ministerial income by source (parsonage allowance) plus the amount.
- 3) A list of each item of otherwise deductible ministerial expenses plus the amount.
- 4) How you figured the nondeductible part of your otherwise deductible expenses.
- 5) A statement that the other deductions claimed on your tax return are not allocable to your tax-free income.

See the statement prepared for the *Comprehensive Example*, later.

Health Insurance Costs of Self-Employed Ministers

If you are self-employed, you may be able to deduct a percentage of the amount you pay for medical insurance coverage for yourself and your family. For 1999, the percentage is 60%.

You can take this deduction even if you do not itemize deductions on Schedule A (Form 1040). You take the deduction as an adjustment to income on Form 1040. There is a worksheet in the instructions for Form 1040 that you can use to figure this deduction.

The following special rules apply to the self-employed health insurance deduction.

- The expenses taken into account for purposes of this deduction are not allowed as a medical expense deduction on Schedule A.
- The deduction is not allowed for any month you are eligible to participate in a subsidized plan of your or your spouse's employer.
- The deduction is not used to reduce your net earnings for your SE tax.
- The deduction cannot exceed your net earnings from the business under which the insurance plan is established. Your net earnings under this rule do **not** include the income you earned as a common-law employee (discussed earlier) of a church.

More information. For more information about the self-employed health insurance deduction, see chapter 10 in Publication 535.

Deduction for SE Tax

You can deduct one-half of your SE tax in figuring adjusted gross income. This is an income tax deduction only, and you deduct it on line 27 of Form 1040.



This is not a deduction in figuring net earnings from self-employment subject to SE tax.

Income Tax Withholding and Estimated Tax

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her pay. However, your pay is generally **not** subject to federal income tax withholding if both the following conditions apply.

- You are a duly ordained, commissioned, or licensed minister, a member of a religious order (who has not taken a vow of

poverty), or a Christian Science practitioner.

- Your pay is for qualified services (see *Qualified Services*, earlier).

If your salary is not subject to withholding, or if you do not pay enough tax through withholding, you might have to pay estimated tax to avoid penalties for not paying enough tax as you earn your income.

You generally must make estimated tax payments if you expect to owe taxes, including self-employment tax, of \$1,000 or more when you file your return.

Determine your estimated tax by using the worksheet in Form 1040-ES. Then, using the Form 1040-ES payment voucher, pay the entire estimated tax or the first installment by April 17, 2000. The April 17 date applies whether or not your tax home and your abode are outside the United States and Puerto Rico. For more information get Publication 505, *Tax Withholding and Estimated Tax*.

If you perform your services as a common-law employee of the church and your pay is not subject to income tax withholding, you can enter into a voluntary withholding agreement with the church to cover any income and SE tax that may be due.

Filing Your Return

You have to file an income tax return for 1999 if your gross income was at least the amount shown in the second column. (Gross income means all income you received in the form of money, goods, property, and services that is not exempt from income tax.)

Who Must File

Filing Status Is:	Income At Least:
Single	
Under 65	7,050
65 or older	8,100
Married, filing jointly	
Both under 65	12,700
One spouse 65 or older	13,550
Both 65 or older	14,400
Not living with spouse at end of year (or on date spouse died)	2,750
Married, filing separately	
All (any age)	2,750
Head of household	
Under 65	9,100
65 or older	10,150
Qualifying widow(er) with dependent child	
Under 65	9,950
65 or older	10,800

Additional requirements. Even if your income was less than the amount shown above, you must file an income tax return on Form 1040, and attach a completed Schedule SE, if:

- You are not exempt from SE tax, and you have net earnings from self-employment (discussed earlier under *Figuring Net Earnings From Self-Employment for SE Tax*) of \$400 or more in the tax year,
- You are exempt from SE tax on earnings from qualified services and you have \$400 or more of other earnings subject to SE tax, or
- You had wages of \$108.28 or more from an electing church or church-controlled organization (discussed earlier under *Religious Workers*).

Self-employment tax. If you are liable for SE tax, you must file Schedule SE (Form 1040) with your return.

Exemption from SE tax. If you filed Form 4361 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE. Instead, write "Exempt—Form 4361" on Form 1040, line 50.

If you filed Form 4029 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE. Instead, write "Exempt—Form 4029" on Form 1040, line 50.

For more information on filing your return, including when and where to file it, see the instructions for Form 1040.

Retirement Savings Arrangements

Retirement savings arrangements are plans that offer you a tax-favored way to save for your retirement. You generally can deduct your contributions to the plan. Your contributions and the earnings on them are not taxed until they are distributed.

Retirement plans for the self-employed.

To set up a qualified retirement plan (also called a Keogh or H.R. 10 plan), a simplified employee pension (SEP) plan, or a SIMPLE plan, you must be self-employed.

The common law rules determine whether you are an employee or a self-employed person for purposes of setting up a retirement plan. See *Employment Status for Other Tax Purposes*, earlier. This is true even if your pay for qualified services (discussed earlier) is subject to SE tax.

For example, if a congregation pays you a salary for performing qualified services, and you are subject to the congregation's control, you are a common-law employee. You are not a self-employed person for purposes of setting up a retirement plan. This is true even if your salary is subject to SE tax.

On the other hand, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services that are reported on Schedule C or C-EZ, are earnings from self-employment for all tax purposes.

For more information on establishing a SEP, SIMPLE, or qualified retirement plan, get Publication 560, *Retirement Plans for Small Business*.

Individual retirement arrangements (IRAs).

The traditional IRA and the Roth IRA are two individual retirement arrangements you can use to save money for your retirement. You generally are allowed to make contributions to either a traditional or a Roth IRA of up to \$2,000 or the amount of your pay, whichever is less. \$2,000 is the most you can contribute regardless of whether you contribute to one or both of these IRAs. Contributions to a traditional IRA may be deductible. Your deduction for contributions to your traditional IRA may be reduced or eliminated if you or your spouse is covered by an employer retirement plan (including, but not limited to a SEP or SIMPLE, or qualified retirement plan).

Unlike contributions to a traditional IRA, contributions to a Roth IRA are **not** deductible. But, if you satisfy certain requirements, all earnings in the Roth IRA are tax free and neither your nondeductible contributions nor any earnings on them are taxable when you withdraw them.

For more information on IRAs, get Publication 590.

Church plans. If you are a duly ordained, commissioned, or licensed minister working as a minister or chaplain, and are self-employed or employed by an organization that is not a tax-exempt organization, you can participate in a church plan. For more information, see Publication 571, *Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations*.

Earned Income Credit

The earned income credit is a special credit for certain people who work. If you qualify for it, the earned income credit reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Also, you may be able to get part of the credit added to your pay instead of waiting until after the end of the year.

You cannot take the credit if your earned income (or modified adjusted gross income, if greater) is:

- \$10,200 or more if you do not have a qualifying child,
- \$26,928 or more if you have one qualifying child, or
- \$30,580 or more if you have more than one qualifying child.

Earned income. Earned income includes your:

- Wages, salaries, tips, and other pay, and
- Net earnings from self-employment minus the amount you claimed (or should have claimed) on Form 1040, line 27, for one-half of your SE tax.

Earned income for a minister with an approved Form 4361. If you have earnings from qualified services that are exempt from SECA (have an approved Form 4361), amounts you received for performing ministerial duties as an employee are earned income. This includes wages, salaries, tips, and other employee pay. It also includes pay that is not taxed, such as the housing and utility allowance received as part of your pay for services as an employee.

Amounts you received for nonemployee ministerial duties are not earned income. This includes fees for performing marriages, baptisms, and honoraria for delivering speeches.

If you had nonministerial duties, any net earnings from self-employment, minus one-half of your SE tax, or any pay received as an employee is earned income.

Earned income for a minister whose income from qualified services is not exempt from SECA. Earned income includes your net earnings from self-employment plus any pay you received for nonministerial duties minus your Form 1040, line 27, amount for one-half of SE tax.

Your net earnings from self-employment includes those net earnings from qualified services. See *Figuring Net Earnings From Self-Employment for SE Tax*, earlier. Net earnings also includes net earnings from self-employment related to nonministerial duties.


Earned income for a member of a recognized religious sect with an approved Form 4029. If you have an approved Form 4029, all wages, salaries, tips, and other employee compensation are earned income. Amounts you received as a self-employed individual are not earned income. Also, losses from Schedules C, C-EZ, or F cannot be subtracted from wages on line 7 of Form 1040.

More information. For the detailed rules on this credit, get Publication 596. To figure the amount of your credit, you will have to fill out a worksheet or have the IRS compute the credit for you. You may need to complete Schedule EIC and attach it to your tax return. For details on getting part of the credit added to your pay, get Form W-5, *Earned Income Credit Advance Payment Certificate* from your employer or the IRS.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

 **Personal computer.** With your personal computer and modem, you can access the IRS on the Internet at www.irs.gov. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed*) to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs*) to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under the *United States Code (USC)*).
- *Comments & Help* to e-mail us with comments about the site or with tax questions.
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business*) to receive our electronic newsletters on hot tax issues and news.

- *Small Business Corner* (located under *Tax Info For Business*) to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov).



TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistant and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistants objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 work-days after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at www.irs.gov/cdorders. The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676**.

Comprehensive Example

Rev. John Michaels is the minister of the First United Church. He is married and has one child. 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 \$31,000. 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 \$8,400. He taught a course at the local community college, for which he was paid \$3,400.

In an earlier year, Rev. Michaels bought a home next to the church. He makes an \$800 per month mortgage payment of principal and interest only. The church paid him \$800 per month as his parsonage allowance (excluding utilities). The home's fair rental

value is \$900 per month. The utility bills for the year totaled \$960. The church paid him \$100 per month designated as an allowance for utility costs.

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

Form W-2 From Church

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

Box 1. The church entered Rev. Michaels' \$31,000 salary.

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

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

Box 14. The church entered Rev. Michaels' total parsonage and utilities allowance for the year and identified them.

Form W-2 From College

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

Box 1. The college entered Rev. Michaels' \$3,400 salary.

Box 2. The college withheld \$272 in federal income tax on Rev. Michaels' behalf.

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

Box 4. The college withheld \$210.80 in social security taxes.

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

Schedule C-EZ (Form 1040)

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

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

Line 2. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of \$87 for marriage and family booklets and \$155 for 495 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. From January through March, when his records show that he drove 123 miles, the expense totals \$40 (32.5 cents x 123 miles). From April through December, when he drove 372 miles, the expense totals \$115 (31 cents x 372 miles).

These expenses total \$242. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement (shown later) to his return that explains how he figures the nondeductible part of \$56. He sub-

tracts the \$56 from the \$242 and enters the \$186 difference on line 2.

Line 3. He enters his net profit of \$3,814 both on line 3 and on Form 1040, line 12.

Lines 4–8b. Rev. Michaels fills out these lines to report information about his car.

Form 2106-EZ

Rev. Michaels fills out Form 2106-EZ to report the unreimbursed business expenses he had as a common-law employee of First United Church.

Line 1. Before completing line 1 Rev. Michaels fills out Part II because he used his car for church business. Then he checks his records and sees that, of the 2806 business miles he reported in Part II, he drove 705 miles before April 1, 1999, and 2,101 miles after March 31, 1999. On line 1 he multiplies the miles by the mileage rate in effect for each part of the year. The result is \$229 for the first part of the year, and \$651 for the rest. The total is \$880.

Line 4. He enters \$219 for his professional publications and booklets.

Line 6. Before entering the total expenses on line 6, Rev. Michaels must reduce them by the amount allocable to his tax-free parsonage allowance. On the required Attachment 1 (shown later), he shows how he figured the nondeductible part of his expenses. The result is \$253 of expenses allocable to the tax-free parsonage allowance. He subtracts \$253 from \$1,099 and enters the result, \$846, on line 6. He also enters \$846 on line 20 of Schedule A (Form 1040).

Schedule A (Form 1040)

Rev. Michaels' fills out Schedule A as explained here.

Line 6. Rev. Michaels deducts \$1,750 in real estate taxes.

Line 10. He deducts \$6,810 of home mortgage interest.

Line 15. Rev. and Mrs. Michaels contributed \$4,800 in cash during the year to various qualifying charities. Each individual contribution was less than \$250.

Line 20. Rev. Michaels enters his unreimbursed employee business expenses from Form 2106-EZ, line 6.

Lines 24, 25, and 26. He can deduct only the part of his employee business expenses that exceeds 2% of his adjusted gross income. He fills out these lines to figure the amount he can deduct.

Line 28. The total of all the Michaels' itemized deductions is \$13,500, which they enter on line 28 and on Form 1040, line 36.

Schedule SE (Form 1040)

After Rev. Michaels prepares Schedule C-EZ and Form 2106-EZ, he fills out Schedule SE. He reads the chart on page 1 of the schedule which tells him he can use *Section A— Short Schedule SE* to figure his self-employment tax. Because Rev. Michaels is a minister, his salary from the church is not considered "church employee income." Thus, he does not have to use *Section B— Long Schedule SE*. He fills out the following lines in Section A.

Line 2. Rev. Michaels attaches a statement (see Attachment 2, later) that explains how he figures the amount (\$44,459) to enter.

Line 4. He multiplies \$44,459 by .9235 to get his net earnings from self-employment (\$41,058).

Line 5. Because the amount on line 4 is less than \$72,600, Rev. Michaels multiplies the amount on line 4 (\$41,058) by .153 to get his self-employment tax of \$6,282. He enters that amount here and on Form 1040, line 50.

Line 6. Rev. Michaels multiplies the amount on line 5 by .5 to get his deduction for one-half of self-employment tax of \$3,141. He enters that amount here and on Form 1040, line 27.

Form 1040

After Rev. Michaels prepares Form 2106-EZ and the other schedules, he fills out Form 1040. He files a joint return with his wife. First he fills out the address area and completes the appropriate lines for his filing status and exemptions. Then he fills out the rest of the form as follows:

Line 7. Rev. Michaels reports \$34,400. This amount is the total of his \$31,000 church salary and \$3,400 college salary, which were reported to him in box 1 of the Forms W-2 he received.

Line 12. He reports his net profit of \$3,814 from Schedule C-EZ, line 3.

Line 21. He reports \$240, the excess of his utility allowance over his utility costs. The parsonage allowance is not taxable for income tax purposes.

Line 27. He enters half his SE tax from Schedule SE, line 6.

Line 36. He enters the total itemized deductions from Schedule A, line 28.

Line 43. The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the *Child Tax Credit Worksheet* (not shown) in the instructions for Form 1040. He enters the \$500 credit on line 43.

Line 50. He enters the self-employment tax from Schedule SE, line 5.

Line 57. He enters the federal income tax shown in box 2 of his Form W-2 from the college.

Line 58. He enters the \$8,400 estimated tax payments he made for the year.

a Control number		OMB No. 1545-0008				
b Employer identification number 00-0246810		1 Wages, tips, other compensation 31,000.00		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 Employee's social security number 011-00-2222		9 Advance EIC payment		10 Dependent care benefits		
e Employee's name, address, and ZIP code John E. Michaels 1040 Main Street Hometown, TX 77099		11 Nonqualified plans		12 Benefits included in box 1		
		13 See instrs. for box 13		14 Other Parsonage Allowance 9,600.00 Utilities Allowance 1,200.00		
		15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>		Pension plan <input type="checkbox"/>
				Legal rep. <input type="checkbox"/>		Deferred compensation <input type="checkbox"/>
16 State	Employer's state I.D. no.	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

Form **W-2** Wage and Tax Statement **1999**
 Copy B To Be Filed With Employee's FEDERAL Tax Return

Department of the Treasury—Internal Revenue Service

This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008				
b Employer identification number 00-1357913		1 Wages, tips, other compensation 3,400.00		2 Federal income tax withheld 272.00		
c Employer's name, address, and ZIP code Hometown College 40 Honor Road Hometown, Texas 77099		3 Social security wages 3,400.00		4 Social security tax withheld 210.80		
		5 Medicare wages and tips 3,400.00		6 Medicare tax withheld 49.30		
		7 Social security tips		8 Allocated tips		
d Employee's social security number 011-00-2222		9 Advance EIC payment		10 Dependent care benefits		
e Employee's name, address, and ZIP code John E. Michaels 1040 Main Street Hometown, TX 77099		11 Nonqualified plans		12 Benefits included in box 1		
		13 See instrs. for box 13		14 Other		
		15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>		Pension plan <input type="checkbox"/>
				Legal rep. <input type="checkbox"/>		Deferred compensation <input type="checkbox"/>
16 State	Employer's state I.D. no.	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

Form **W-2** Wage and Tax Statement **1999**
 Copy B To Be Filed With Employee's FEDERAL Tax Return

Department of the Treasury—Internal Revenue Service

This information is being furnished to the Internal Revenue Service.

For the year Jan. 1—Dec. 31, 1999, or other tax year beginning , 1999, ending OMB No. 1545-0074

Label

(See instructions on page 18.)

Use the IRS label. Otherwise, please print or type.

Label information table including names (John E. Michaels, Susan R. Michaels), address (1040 Main Street, Hometown, TX 77099), and social security numbers (011-00-2222, 011-00-1111).

Presidential Election Campaign

Do you want \$3 to go to this fund? If a joint return, does your spouse want \$3 to go to this fund?

Table for Presidential Election Campaign with Yes/No columns and a note about checking 'Yes'.

Filing Status

Check only one box.

- 1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here.
4 Head of household (with qualifying person).
5 Qualifying widow(er) with dependent child

Exemptions

If more than six dependents, see page 19.

Exemptions section including checkboxes for Yourself, Spouse, and Dependents, with a table for dependent information and a total exemption count of 3.

Income

Attach Copy B of your Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 20.

Enclose, but do not staple, any payment. Also, please use Form 1040-V.

Income table with rows 7 through 22, including wages (34,400), business income (3,814), and total income (38,454).

Adjusted Gross Income

Adjusted Gross Income table with rows 23 through 33, including deductions and the final adjusted gross income of 35,313.

Tax and Credits

Standard Deduction for Most People

Single: \$4,300
 Head of household: \$6,350
 Married filing jointly or Qualifying widow(er): \$7,200
 Married filing separately: \$3,600

34	Amount from line 33 (adjusted gross income)	34	35,313
35a	Check if: <input type="checkbox"/> You were 65 or older, <input type="checkbox"/> Blind; <input type="checkbox"/> Spouse was 65 or older, <input type="checkbox"/> Blind. Add the number of boxes checked above and enter the total here ▶ 35a		
b	If you are married filing separately and your spouse itemizes deductions or you were a dual-status alien, see page 30 and check here ▶ 35b <input type="checkbox"/>		
36	Enter your itemized deductions from Schedule A, line 28, OR standard deduction shown on the left. But see page 30 to find your standard deduction if you checked any box on line 35a or 35b or if someone can claim you as a dependent	36	13,500
37	Subtract line 36 from line 34	37	21,813
38	If line 34 is \$94,975 or less, multiply \$2,750 by the total number of exemptions claimed on line 6d. If line 34 is over \$94,975, see the worksheet on page 31 for the amount to enter	38	8,250
39	Taxable income. Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-	39	13,563
40	Tax (see page 31). Check if any tax is from a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 . . . ▶	40	2,036
41	Credit for child and dependent care expenses. Attach Form 2441	41	
42	Credit for the elderly or the disabled. Attach Schedule R	42	
43	Child tax credit (see page 33)	43	500
44	Education credits. Attach Form 8863	44	
45	Adoption credit. Attach Form 8839	45	
46	Foreign tax credit. Attach Form 1116 if required	46	
47	Other. Check if from a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8396 c <input type="checkbox"/> Form 8801 d <input type="checkbox"/> Form (specify) _____	47	
48	Add lines 41 through 47. These are your total credits	48	500
49	Subtract line 48 from line 40. If line 48 is more than line 40, enter -0- ▶	49	1,536

Other Taxes

50	Self-employment tax. Attach Schedule SE	50	6,282
51	Alternative minimum tax. Attach Form 6251	51	
52	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	52	
53	Tax on IRAs, other retirement plans, and MSAs. Attach Form 5329 if required	53	
54	Advance earned income credit payments from Form(s) W-2	54	
55	Household employment taxes. Attach Schedule H	55	
56	Add lines 49 through 55. This is your total tax ▶	56	7,818

Payments

57	Federal income tax withheld from Forms W-2 and 1099	57	272
58	1999 estimated tax payments and amount applied from 1998 return	58	8,400
59a	Earned income credit. Attach Sch. EIC if you have a qualifying child		
b	Nontaxable earned income: amount . . . ▶ _____ and type ▶ _____	59a	
60	Additional child tax credit. Attach Form 8812	60	
61	Amount paid with request for extension to file (see page 48)	61	
62	Excess social security and RRTA tax withheld (see page 48)	62	
63	Other payments. Check if from a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136	63	
64	Add lines 57, 58, 59a, and 60 through 63. These are your total payments ▶	64	8,672

Refund

Have it directly deposited! See page 48 and fill in 66b, 66c, and 66d.

65	If line 64 is more than line 56, subtract line 56 from line 64. This is the amount you OVERPAID	65	854
66a	Amount of line 65 you want REFUNDED TO YOU ▶	66a	
b	Routing number _____ ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number _____		
67	Amount of line 65 you want APPLIED TO YOUR 2000 ESTIMATED TAX ▶	67	854

Amount You Owe

68	If line 56 is more than line 64, subtract line 64 from line 56. This is the AMOUNT YOU OWE . For details on how to pay, see page 49 ▶	68	
69	Estimated tax penalty. Also include on line 68	69	

Sign Here

Joint return? See page 18. Keep a copy for your records.

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

Your signature John E. Michaels	Date 3/1/2000	Your occupation Minister	Daytime telephone number (optional) ()
Spouse's signature. If a joint return, BOTH must sign. Susan R. Michaels	Date 3/1/2000	Spouse's occupation Homemaker	

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed) and address ▶		EIN	ZIP code

SCHEDULES A&B
(Form 1040)

Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ **Attach to Form 1040.** ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074

1999

Attachment
Sequence No. **07**

Name(s) shown on Form 1040

John E. Michaels and Susan R. Michaels

Your social security number

011 : 00 : 2222

Medical and Dental Expenses	1	Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-1)	1			
	2	Enter amount from Form 1040, line 34, 2				
	3	Multiply line 2 above by 7.5% (.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4			
Taxes You Paid (See page A-2.)	5	State and local income taxes	5			
	6	Real estate taxes (see page A-2)	6	1,750		
	7	Personal property taxes	7			
	8	Other taxes. List type and amount ▶	8			
	9	Add lines 5 through 8	9			1,750
Interest You Paid (See page A-3.)	10	Home mortgage interest and points reported to you on Form 1098	10	6,810		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11			
	12	Points not reported to you on Form 1098. See page A-3 for special rules	12			
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)	13			
Note. Personal interest is not deductible.	14	Add lines 10 through 13	14			6,810
Gifts to Charity If you made a gift and got a benefit for it, see page A-4.	15	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4	15	4,800		
	16	Other than by cash or check. If any gift of \$250 or more, see page A-4. You MUST attach Form 8283 if over \$500	16			
	17	Carryover from prior year	17			
	18	Add lines 15 through 17	18			4,800
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	19			
Job Expenses and Most Other Miscellaneous Deductions (See page A-5 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. You MUST attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	20	846		
	21	Tax preparation fees	21			
	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶	22			
	23	Add lines 20 through 22	23	846		
	24	Enter amount from Form 1040, line 34, 24 35,313	24			
	25	Multiply line 24 above by 2% (.02)	25	706		
26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	26			140	
Other Miscellaneous Deductions	27	Other—from list on page A-6. List type and amount ▶	27			
Total Itemized Deductions	28	Is Form 1040, line 34, over \$126,600 (over \$63,300 if married filing separately)? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 36. } . ▶ <input type="checkbox"/> Yes. Your deduction may be limited. See page A-6 for the amount to enter. }	28			13,500

**SCHEDULE C-EZ
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Net Profit From Business
(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.
▶ Attach to Form 1040 or Form 1041. ▶ See instructions on back.

OMB No. 1545-0074

1999

Attachment
Sequence No. **09A**

Name of proprietor

John E. Michaels

Social security number (SSN)

011 00 2222

Part I General Information

**You May Use
Schedule C-EZ
Instead of
Schedule C
Only If You:**

- Had business expenses of \$2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562**, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-3 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service
Minister

B Enter code from pages C-8 & 9

▶ 5 4 1 9 9 0

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

D Employer ID number (EIN), if any

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.

1042 Main Street

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

Hometown, TX 77099

Part II Figure Your Net Profit

1 Gross receipts. <i>Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see Statutory Employees in the instructions for Schedule C, line 1, on page C-2 and check here</i> ▶ <input type="checkbox"/>	1	4,000
2 Total expenses. If more than \$2,500, you must use Schedule C. See instructions	2	186*
3 Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on Form 1040, line 12 , and ALSO on Schedule SE, line 2 . (Statutory employees do not report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.)	3	3,814

Part III Information on Your Vehicle. Complete this part **ONLY** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 7 / 15 / 96

5 Of the total number of miles you drove your vehicle during 1999, enter the number of miles you used your vehicle for:

a Business 495 **b** Commuting -0- **c** Other 7,309

6 Do you (or your spouse) have another vehicle available for personal use? **Yes** **No**

7 Was your vehicle available for use during off-duty hours? **Yes** **No**

8a Do you have evidence to support your deduction? **Yes** **No**

b If "Yes," is the evidence written? **Yes** **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 14374D

Schedule C-EZ (Form 1040) 1999

* See Attached Statement

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).

▶ Attach to Form 1040.

OMB No. 1545-0074

1999

Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040)

John E. Michaels

Social security number of person with self-employment income ▶

011 00 2222

Who Must File Schedule SE

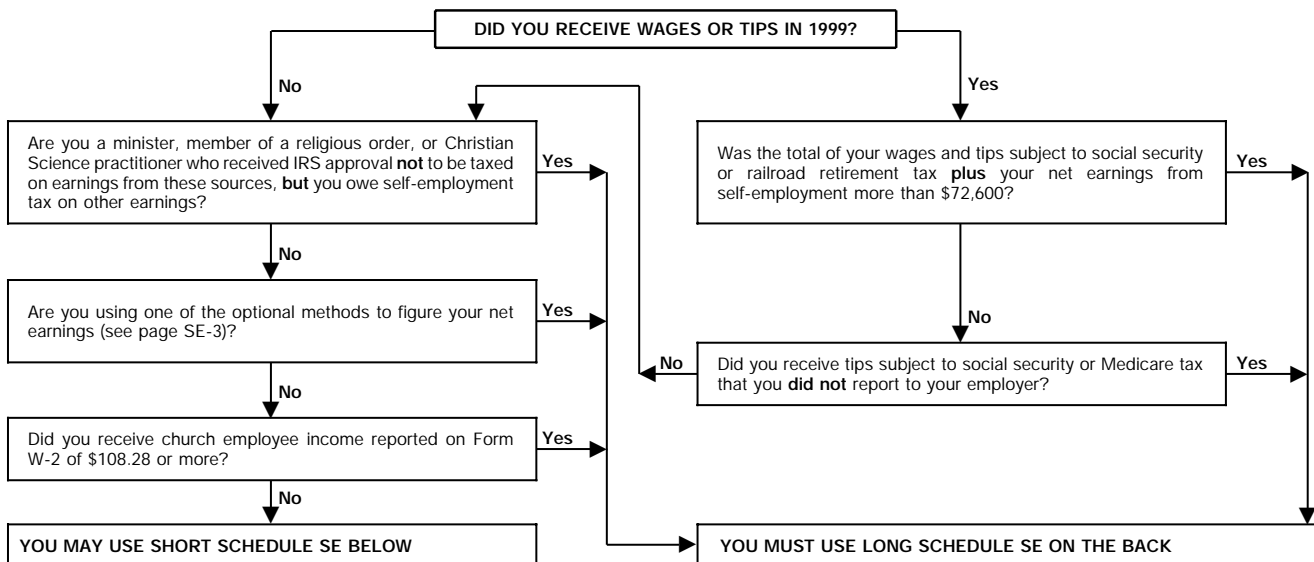
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more, **OR**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

Note: Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 50.

May I Use Short Schedule SE or MUST I Use Long Schedule SE?



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	44,459*	
3	Combine lines 1 and 2	3	44,459	
4	Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶	4	41,058	
5	Self-employment tax. If the amount on line 4 is: <ul style="list-style-type: none"> • \$72,600 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 50. • More than \$72,600, multiply line 4 by 2.9% (.029). Then, add \$9,002.40 to the result. Enter the total here and on Form 1040, line 50. 	5	6,282	
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 27	6	3,141	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 1999

* See Attached Statement

Unreimbursed Employee Business Expenses

Department of the Treasury
Internal Revenue Service

▶ **Attach to Form 1040.**

Your name <p style="text-align: center;">John E. Michaels</p>	Occupation in which you incurred expenses <p style="text-align: center;">Minister</p>	Social security number <p style="text-align: center;">011 : 00 : 2222</p>
--	--	--

You May Use This Form ONLY if ALL of the Following Apply:

- You are an employee deducting expenses attributable to your job.
- You **do not** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense, you are using the standard mileage rate for 1999.

Caution: You can use the standard mileage rate for 1999 **only if:** (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, **OR** (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

Part I Figure Your Expenses

1 Vehicle expense using the standard mileage rate. Complete Part II and then go to line 1a below.			
a Multiply business miles driven before April 1, 1999, by 32½¢ (.325)	1a	229	
b Multiply business miles driven after March 31, 1999, by 31¢ (.31)	1b	651	
c Add lines 1a and 1b	1c	880	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3		
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	219	
5 Meals and entertainment expenses: \$ _____ x 50% (.50) (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 55% (.55) instead of 50%. For more details, see instructions.)	5		
6 Total expenses. Add lines 1c through 5. Enter here and on line 20 of Schedule A (Form 1040). (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.)	6	846*	

Part II Information on Your Vehicle. Complete this part **ONLY** if you are claiming vehicle expense on line 1.

7 When did you place your vehicle in service for business use? (month, day, year) ▶7 /15 /96.....

8 Of the total number of miles you drove your vehicle during 1999, enter the number of miles you used your vehicle for:

a Business2,806..... b Commuting0..... c Other4,998.....

9 Do you (or your spouse) have another vehicle available for personal use? **Yes** **No**

10 Was your vehicle available for use during off-duty hours? **Yes** **No**

11a Do you have evidence to support your deduction? **Yes** **No**

b If "Yes," is the evidence written? **Yes** **No**

General Instructions

Section references are to the Internal Revenue Code.

A Change To Note

The standard mileage rate has decreased to 31 cents for each mile of business use **after** March 31, 1999. See line 1 above.

Purpose of Form

You may use Form 2106-EZ instead of Form 2106 to claim your unreimbursed employee business expenses if you meet all the requirements listed above Part I.

Recordkeeping

You cannot deduct expenses for travel (including meals, unless you used the standard meal allowance), entertainment, gifts, or use of a car or other listed property, unless you keep records to prove the time, place, business purpose, business relationship (for entertainment and gifts), and amounts of these expenses. Generally, you must also have receipts for all lodging expenses (regardless of the amount) and any other expense of \$75 or more.

Additional Information

If you need more information about employee business expenses, you will find the following publications helpful:

- Pub. 463,** Travel, Entertainment, Gift, and Car Expenses
- Pub. 529,** Miscellaneous Deductions
- Pub. 587,** Business Use of Your Home (Including Use by Day-Care Providers)
- Pub. 946,** How To Depreciate Property

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

	TAXABLE	TAX-FREE	TOTAL
Salary as a minister	\$ 31,000		\$ 31,000
Parsonage allowance:			
Mortgage (\$800 × 12)		\$ 9,600	9,600
Utilities			
\$100 × 12 =	\$ 1,200		
minus costs	<u>960</u>	960	960
excess	<u>\$ 240</u>		240
Gross income from weddings, baptisms, and honoraria	<u>4,000</u>		<u>4,000</u>
Ministerial income	<u>\$ 35,240</u>	<u>\$ 10,560</u>	<u>\$ 45,800</u>
Percentage of nondeductible expenses: \$10,560 ÷ \$45,800 = 23%			
Schedule C-EZ Deduction Computation			
Marriage and family booklets		\$	87
Business use of car:			
123 miles × 32.5¢	\$ 40		
372 miles × 31¢	+ 115	+ 155	
Unadjusted Schedule C-EZ expenses		\$	242
		× 23%	
Nondeductible part of expenses		\$	<u>56</u>
Unadjusted Schedule C-EZ expenses		\$	242
Nondeductible part of expenses		-	56
Schedule C-EZ deductions (line 2)		\$	<u>186</u>
Employee Business Expense Deduction Computation			
Car expenses for church business:			
705 miles × 32.5¢	\$ 229		
2,101 miles × 31¢	+ 651	\$ 880	
Publications and booklets		+ 219	
Unadjusted employee business expenses (Form 2106-EZ, line 1c plus line 4)		\$	1,099
		× 23%	
Nondeductible part of expenses		\$	<u>253</u>
Unadjusted employee business expenses (Form 2106-EZ)		\$	1,099
Nondeductible part of expenses		-	253
Employee business expense deduction—Form 2106-EZ, line 6		\$	<u>846</u>
None of the other deductions claimed in the return are allocable to tax-free income.			

Attachment 2. Attachment to Schedule SE (Form 1040)

Church wages		\$	31,000
Parsonage allowance— Mortgage	\$ 9,600		
Utilities	<u>1,200</u>		10,800
Net profit from Schedule C-EZ			<u>3,814</u>
		\$	45,614
Less:			
Schedule C-EZ expenses allocable to tax-free income	\$ 56		
Ministerial employee business expenses	<u>1,099</u>		<u>1,155</u>
Net Self-Employment Income Schedule SE, Section A, line 2		\$	<u>44,459</u>

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