
The Pastor and His Income Tax

For 2009 Tax Year



Please Note

You must fill out the **Tax Data Questionnaire (green sheets)** completely.

Please send your information to us as soon as possible in the tax year—February or early in March would allow us to help more pastors. See page 3 for specifics.

Courtesy of
JAMES W. RICKARD



The Stewardship Services Foundation

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Santa Clarita, CA 91321

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E-mail: stewardship@ssfoundation.net

History

To those who are new to our mailing list, our ministry began in Richland, Washington, in 1977 as The Columbia Pacific Foundation. Because of the increase in demand for our services, we relocated to Newhall, California, in 1987 and changed our name to **The Stewardship Services Foundation**. Over the past three decades, the ministry has grown to include the following services for pastors and their churches:

- *Federal and State Income Tax Preparation*
- *Clergy Tax Seminars*
- *Family Finance Seminars*
- *Estate Planning (Will) Seminars*
- *Church Leadership and Church Finance Seminars*

Seminars Available

The Pastor and His Income Tax. Designed for pastors. Covers such topics as the 1986, 1990, 2000, 2003, and subsequent Tax Reform Acts and their impact on ministers, the parsonage or housing allowance exclusion, professional expenses (why you should be reimbursed), salary packages, retirement plans, employee versus self-employment rules and record keeping requirements.

Church Leadership and Finance. Designed for elders, deacons, trustees, administrators, finance committee members, etc. Addresses such matters as protecting the integrity of the church, qualifications for leadership, generating budgets and reports, filing correct tax forms, developing salary packages, setting goals and objectives, record keeping requirements and principles of praying for, protecting and paying the pastoral staff.

Family Finance. Looks at the biblical principles of money focusing on five convictions and fourteen key financial principles. Offers practical counsel on how to make good financial decisions and how to handle debt. Also gives helpful information concerning budgets, life insurance, credit cards—a great tool or a terrible master—buying automobiles, prepaying a home mortgage, retirement planning, and numerous examples of real-life situations.

Biblical Stewardship. Selected texts for the Sunday morning worship service centered around the three convictions of Biblical Stewardship which we believe are the cornerstone principles.

Estate Planning. Provides practical help in estate planning and making a will or revocable living trust. Covers basic terminology, guardianship, joint tenancy, probate, the dangers of dying intestate (without a will) and a checklist for the surviving spouse. The information shared will also be helpful in reviewing the will you may already have.

The Stewardship Services Foundation

The best time to call the office:

January 4–April 15, 2010

Monday–Friday, 8:00 a.m.–5:00 p.m.

April 20–December 30, 2010

Tuesday & Thursday, 9:00–11:00 a.m.

Introduction

One of the objectives of The Stewardship Services Foundation is to provide tax counseling and preparation services without charge to the conservative evangelical Christian community. Our duty as individual Christians is to use wisely that which the Lord gives us. As a steward of God, the success or failure you have with the money God gives you will greatly affect your testimony for Jesus Christ. That includes paying Uncle Sam that which we owe him.

There are only three requirements you must adhere to in order for The Stewardship Services Foundation to prepare your 2009 tax return:

1. You **must** use the tear-out form in the center of this booklet.
2. You **must** be in the ministry and a member of a **church that agrees with our doctrinal statement**. You can find our doctrinal statement at: <http://ssfoundation.net/DoctrinalStatement.htm>.
3. All returns **must** be received by March 30 in order to ensure meeting the April 15 deadline.

It should be noted that this booklet is designed solely as a general guide. The tax laws are often complex and subject to different interpretations. It will be most important to check for any changes in interpretations, rulings or technical corrections to be made by Congress and/or the IRS. We trust that you will feel at ease in contacting our office for tax counsel or assistance in preparing your tax return.

General Information

Benevolent gifts from church funds to needy families are not taxable unless the gift is to an employee of the church.

Contributions are *never* professional expenses (Section 162(b)).

The 2009 mileage rate for professional automobile use is \$.55 per mile.

2010 due dates for estimated taxes. April 15; June 15; September 15; January 17 or February 1, 2011, if tax return is completed and filed at the same time.

Dalan Ruling—IRC-265 Professional Ministerial Expenses Only Partially Deductible

In January of 1990, the IRS took another step toward reducing the amount of professional expenses ministers can deduct on their tax returns; expenses such as automobiles, books, periodicals, conferences, office supplies, telephones, etc. It involves a case known as the *Dalan Case*. In effect, the IRS ruled that, beginning in 1988, ministers would not be able to deduct all of their professional expenses because of earning non-taxable income. For example, the Housing Allowance: Pastor Smith earns \$60,000 per year of which \$24,000 is housing allowance. His professional expenses amount to \$6,000 for the year. Since forty percent of his income is non-taxable (\$24,000 divided by \$60,000), \$2,400 of his expenses are non-deductible (\$6,000 x 40%). If Pastor Smith is reimbursed by his church for professional expenses, then the Dalan ruling has no effect on the minister. The Dalan ruling also applies to a minister's Schedule C expenses.

Self-Employment Tax Rate (Social Security)

2009.....15.30%

The Self-Employment rate for ministers is computed by taking total income paid to you as salary (including housing allowance), subtracting deductible professional expenses (including travel expenses) and multiplying the result by .9235 and that total by 15.3%.

Important Ruling Regarding Pastors' Dual Employment Status

According to IRS Publication 517, pastors of churches are employees for federal income tax purposes and self-employed for Social Security (SECA) purposes (i.e., dual-status employees).

The IRS states "The church is required to issue a W-2 whether income tax was withheld or not withheld." *The IRS is enforcing this requirement. What does it mean?*

1. Churches must issue a W-2 to their ministers.
2. The church **must not** withhold Social Security and Medicare taxes from the pastor's wages. He is self-employed for Social Security purposes.
3. The minister must pay quarterly on form 1040-ES or have income tax withheld by the church (also see bottom of page 8).
4. If the church withholds any taxes a 941 quarterly tax report must be filed with the IRS.
5. Professional expenses related to the minister's W-2 income must be reported on Form 2106 and Schedule A of Form 1040 **unless reimbursed by the church.**
6. Income and expenses related to funerals, baptisms, marriages, and other speaking engagements are still reported on Schedule C of Form 1040.

Who is an employee?

When the church hires and pays someone to perform services: secretaries, janitors, babysitters, gardeners, etc., they are **not** independent contractors, they are your **employees**. You must withhold and match FICA and issue them a W-2. IRS publication 15, page 3 defines who is an employee.

Traveling evangelists or special speakers that are guests of your church would require a 1099-MISC if the honorarium paid to them was \$600 or more. However, any amount they receive is taxable unless they are being reimbursed for expenses. If the check is paid to a corporation, the 1099-MISC is not required. Note: Do not include reimbursements for substantiated expenses on a 1099-MISC.

Ministers' Pensions

IRA. Pastors should not participate in IRAs, Roth IRAs or Sep IRAs without good tax counsel. We recommend the 403-b Pension Plan, especially if you pay SE tax. Can't find someone to set up a 403-b for you? Call our office if you need a recommendation.

403-b Pension Plans. Can be set up by the pastor through the church. The maximum possible annual contribution for 2010 is \$16,500 (\$22,000 if age 50 or older). The amount contributed is exempt from federal income tax, self-employment tax and most state income taxes. Distributions after retirement are eligible for the housing allowance (Revenue Ruling 68-395).

Social Security. Unless you are a conscientious objector as defined on Form 4361, you should not opt out of Social Security. **Opting out is not a financial decision.** Is the system safe? It's as safe as the United States government, which is still the safest in the world. Check your Social Security earnings record and get an estimate of benefits at <http://www.ssa.gov/online/ssa-7004.html>

Other Fringe Benefits. Employees of not-for-profit employers (i.e., churches) are eligible for tax-free benefits as long as they follow IRS requirements and are paid directly by the church. Examples: self-insured medical reimbursement plans, disability insurance, educational assistance programs, certain pension plans, group term life insurance on the first \$50,000 of coverage, medical and health insurance.

Disability Insurance. Disability insurance and long-term care insurance are becoming important issues that every church board should discuss. Long-term care benefits are tax-free. Disability benefits are tax-free when the premiums are included in the employee's taxable income.

Medical Insurance. Providing medical insurance for church employees is becoming more complex. Please refer to our website at http://ssfoundation.net/general_info.htm for more options.

Pastor's Sample Salary Package with Housing Allowance

See Example 1 Below

	Annual Amount	Taxable For	Included in W-2
Base Salary	\$ 35,000	FIT & SECA	Yes - Block 1
SE Tax Assistance	4,950**	FIT & SECA	Yes - Block 1
Housing Allowance	20,000*	SECA	Block 14 only
Medical Insurance	8,400	Not Taxable	No
Retirement Plan—403-b	6,000	Not Taxable	Block 12 only
Disability Insurance	1,500	See page 5	See page 5
Long-Term Care Insurance	1,500	Not Taxable	No
Total	\$77,350		

Show Base Salary Amount on W-2, block 1 = \$39,950

Show Housing Allowance* on W-2, block 14 = \$20,000

Total Actual Cash Salary = \$59,950

***Housing Allowance** covers pastor's out-of-pocket expenses to provide a home you either rent or own. See pages 9-10 for details.

****SE Tax Assistance—(SECA)**

Many churches are now adding an additional amount to the pastor's salary to assist him in paying the heavy burden of the 15.3% self-employment tax.

Note: Churches **cannot** contribute to your IRA and exclude it from income on your W-2.

Example 1 Sample W-2

22222		a Employee's social security number 365-16-0000	OMB No. 1545-0048		
b Employer identification number (EIN) 35-6500000		1 Wages, tips, other compensation 39,950.00		2 Federal income tax withheld none	
c Employer's name, address, and ZIP code First Baptist Church 1880 Main Street Newhall, CA 91321		3 Social security wages none		4 Social security tax withheld none	
		5 Medicare wages and tips none		6 Medicare tax withheld none	
		7 Social security tips		8 Allocated tips	
		9 Advance EIC payment		10 Dependent care benefits	
d Control number		11 Nonqualified plans		12a	
e Employee's first name and initial Tom F		Last name Jones		E 6,000.00	
826 Briar Street Newhall, CA 91321		13 <input type="checkbox"/> 1525(a) <input checked="" type="checkbox"/> 1525(b) <input type="checkbox"/> 1525(c) <input type="checkbox"/>		12b	
		14 Other Minister - see Schedule SE Housing Allowance 20,000.00		12c	
f Employee's address and ZIP code		15 State CA 555 1234 0		16 State wages, tips, etc. 39,950.00	
		17 State income tax		18 Local wages, tips, etc.	
		19 Local income tax		20 Locality name	

W-2 Wage and Tax Statement **2009** Department of the Treasury—Internal Revenue Service

Form Copy 1—For State, City, or Local Tax Department

Pastor's Sample Salary Package with Church-Owned Parsonage

See Example 2 Below

	Annual Amount	Taxable For	Included in W-2
Base Salary	\$ 35,000	FIT & SECA	Yes - Block 1
SE Tax Assistance	4,950	FIT & SECA	Yes - Block 1
Parsonage Allowance	12,000*	SECA	Block 14 only
Housing Allowance	8,000**	SECA	Block 14 only
Medical Insurance	8,400	Not Taxable	No
Retirement Plan - 403-b	9,000***	Not Taxable	Block 12 only
Disability Insurance	1,500	See page 5	See page 5
Long-Term Care Insurance	1,500	Not Taxable	No
Total	\$ 80,350		

Show Base Salary Amount on W-2, block 1 = \$39,950

Show total of Parsonage and Housing Allowance* on W-2, block 14 = \$20,000

Total Actual Cash Salary (does not include parsonage) = \$47,950

***Parsonage Allowance** pertains to fair market rental value of church-owned home plus actual utilities paid by the church.

****Housing Allowance** covers pastor's out-of-pocket expenses incurred in the church-provided home. See pages 9-10 for details.

*****Retirement**—increased benefit compensates pastor for lack of equity building due to living in church-owned parsonage.

Example 2 Sample W-2

22222		a Employer's social security number 365-16-0000	OMB No. 1545-0008	
b Employer identification number (EIN) 35-6500000		1 Wage, tips, other compensation 39,950.00	2 Federal income tax withheld none	
c Employer's name, address, and ZIP code First Baptist Church 1860 Main Street Newhall, CA 91321		3 Social security wages none	4 Social security tax withheld none	
		5 Medicare wages and tips none	6 Medicare tax withheld none	
		7 Social security tips	8 Allocated tips	
d Control number		9 Advance EIC payment	10 Dependent care benefits	
e Employer's first name and initial Last name Tom F Jones		11 Nonqualified plan	12a <input type="checkbox"/> E 9,000.00	
		13 Statutory employee <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b <input type="checkbox"/>	
826 Briar Street Newhall, CA 91321		14 Other		12c <input type="checkbox"/>
		Minister - see Schedule SE Housing Allowance 20,000.00		12d <input type="checkbox"/>
f Employer's address and ZIP code		15 Rate		16 State wages, tips, etc.
CA 555 1234 0		39,950.00		17 State income tax
		18 Local wages, tips, etc.		19 Local income tax
				20 Locality name
W-2 Wage and Tax Statement		2009		Department of the Treasury—Internal Revenue Service
Form Copy 1—For State, City, or Local Tax Department				

Federal Tax Forms Required for Church Use

Churches are not required to obtain IRS approval for tax-exempt status. Incorporation by the state is all you need.

SS-4 Application for Employer Identification Number. Use this form to apply for a federal employer identification number.

W-2 Wage and Tax Statement. All clergy should receive this form by January 31 from the church. See sample on previous page; send copy A as noted on statement.

W-3 Transmittal of Income and Tax Statements. This is the reporting form that the treasurer uses to summarize the church's W-2s for the year. The W-3 and the original W-2s are then submitted by February 28 to the Social Security Administration with the remaining copies of the W-2s distributed as noted on the forms.

W-4 Employee's Withholding Allowance Certificate. This form is filled out by the employee for the treasurer's records. It instructs the treasurer on withholding federal income taxes from wages, the amount to withhold, or even if to withhold. This form is retained in the treasurer's file as a matter of record.

I-9 Employment Eligibility Verification. This form is filled out by the employee (section 1) and the employer (section 2). It certifies the employee's eligibility to work in the United States. This form is retained in the treasurer's file as a matter of record.

Form 941 Employer's Quarterly Federal Tax Return. Effective January 1, 1984, this form is required by most churches. This report is filed by the treasurer quarterly and is a report of all taxes withheld from employees' wages during the quarter. You do not have to deposit those withheld taxes during the quarter unless the total for all employees is more than the minimum payment. You may send the deposit with the report. Read the instructions on the form for information regarding the minimum. Treasurers should file the 941 quarterly even if the report shows "no taxes withheld" until notified differently by the IRS. This report should show all wages including the pastor's on line 2, excluding his housing allowance. The pastor's salary is omitted on lines 6 and 7 because he is self-employed for Social Security.

State Forms. States differ on payroll reporting requirements, including state I.D. numbers. Contact your state office for details.

Remember, pastors are employees for Federal Income Tax and are self-employed for Social Security Tax (SECA).

A pastor's options in paying taxes during the year are:

1. Your treasurer can withhold enough FIT for FIT and Social Security taxes.
2. Your treasurer can withhold FIT and you can file Social Security taxes quarterly on Form 1040-ES.
3. You can file quarterly on 1040-ES for all taxes.
4. Prepaying your state taxes by withholding or quarterly estimates may be required.

Interest and penalties are now being assessed to those who do not prepay their tax obligations and the penalties are severe.

Housing/Parsonage Allowance

How the Housing/Parsonage Exclusion benefits clergy. The Internal Revenue Code provides clergy with an exclusion from gross income commonly known as the “housing/parsonage exclusion.” Section 107 of the Internal Revenue Code reads as follows:

In the case of a minister of the gospel, gross income does not include:

1. The fair market rental value of a church-owned home provided as part of his compensation
2. The part of his compensation designated as housing allowance, to the extent used by him to rent or provide a home.

Who may qualify for this allowance? To qualify, a minister or religious worker must be duly ordained, commissioned or licensed and authorized to perform the ecclesiastical duties of a minister of the gospel in his church.

Please note that the above requirement pertains to the housing/parsonage allowance only, not to other expenses one might have while performing services as an ordained minister (e.g., student pastorate, interim lay pastorate, summer missionary, camp counselor).

Pastors, evangelists, missionaries, theological students serving as assistant pastors, music and education directors, administrators of mission boards or religious organizations and teachers or workers *exclude all the expenses of the home* if the requirement for being ordained, commissioned or licensed is met and the organization is under the control of a religious body.

What does this allowance include?

1. Rent, purchase of a home or home remodeling, not to exceed Fair Market Rental Value* including down payment, mortgage payments (interest, principal), legal fees, taxes and insurance.
2. Furniture, appliances, computers, curtains, rugs, vacuum sweepers, washing machines, dryers, pictures, kitchen and garage utensils.
3. Utilities: heat, electric, telephone, water, cable TV, sewer charge, wood for fire-place, and Internet.
4. Cleaning supplies, brooms, light bulbs, lawn care.
5. Miscellaneous repairs.

Note: Mortgage interest and real estate taxes are also deductible on Schedule A (i.e., a double deduction).

*Fair Market Rental Value (FMRV) varies by location and by house. A general rule of thumb for FMRV is one percent of the appraised value per month. For example, if the appraisal equals \$150,000, the monthly FMRV would be \$1500. The annual FMRV would be \$1500 x 12 = \$18,000. Items 2-5 are in addition to FMRV limitation. **This is only a general rule of thumb; the IRS may require a rental appraisal of your home furnished.**

***Remember: Housing allowance must be money spent on housing to qualify.
Home equity loans must be spent on the home to qualify.***

***Insert for Minutes of Meeting to Approve
the Housing/Parsonage Allowance***

1. It was discussed that under the tax law a minister of the gospel is not subject to federal income tax on the "housing allowance paid to him as part of his compensation to the extent used by him to rent or provide a home."
2. The parsonage owned by the church has a rental value of \$_____ and is provided for the convenience of the church. Actual utility expenses will be paid by the church and they will amount to approximately \$_____ for the year.
3. After considering the statement "Pastor's Estimate of Home Expenses" (see next page) prepared by _____, a motion was made and seconded and passed to adopt the following resolution:
4. Resolved that Pastor _____ is to receive a total cash remuneration of \$_____ (salary) for the year 20____. Of this amount, \$_____ (housing expenses paid from salary) is hereby designated as housing allowance.
5. Resolved that as long as Pastor _____ is our employee the above amount of housing/parsonage allowance shall apply to all future years until modified.

Date _____ Signed _____

Note: Using the above insert for the minutes is probably the most convenient for church use. The names of the individuals making the motion and seconding it should be included. If the church does not provide the home and pay the utilities, then the second paragraph is to be omitted. All out of pocket costs in providing your home are to be included in paragraph 4. IRS regulations state that the housing allowance should be designated in writing each year.

***Please notify our office involving any
IRS notices regarding your tax return.***

Pastor's Estimate of Home Expenses

Name of church _____

Position held _____

Housing allowance for the coming year of 20____. I expect to incur the following expenses to rent or otherwise provide a home. I understand that my actual expenses are what I will deduct on my next year's tax return, and I will not be allowed to deduct any expenses not estimated and designated officially.

Item	Amount
Rent or payments on purchase of a house including down payment, principal payments, interest, taxes, insurance and improvements.	\$ _____
Furnishings and appliances.	\$ _____
Utilities	\$ _____
Other housing expenses (cleaning supplies, lawn care, etc.)	\$ _____
Miscellaneous repairs.	\$ _____
Total	\$ _____

Signature _____ Date _____

Note

1. Submit the total estimated housing allowance to your board by December 31 of preceding year. You are not required to submit a breakdown of the allowance.
2. Always overestimate. The amount you cannot justify as being spent will be declared as income. The unspent portion is either reported on the W-2 in block 1 or on Form 1040, page 1, line 7, as "unused housing allowance."
3. Keep accurate records of your expenditures.
4. Can amend in mid-year, but not retroactively.

Professional Expenses

In any corporation, like a church, necessary expenses are incurred in order for its employees to perform their respective duties. These expenses are deductible according to Section 162. Pastors and their associates are included. Examples of professional expenses that would apply to a church setting would be as follows: automobile (\$.55 per mile), books, periodicals, religious materials, entertainment, business gifts, equipment, postage, dues, conferences, education expenses, office supplies and telephone expenses for professional calls. An amount to cover these expenses should be included in a line item category in the church budget, separate from and in addition to salary. The employees should then be reimbursed out of the budget as they adequately account to the church for those expenses considered ordinary and necessary for them to carry out their duties.

Professional Reimbursement

How does it work? The church would reimburse you out of a General Fund line item account (e.g., travel at \$.55 per mile, entertainment, books, periodicals, conferences, etc.). You would then get reimbursed monthly for these expenses by the church. You must be accountable with receipts and logs. If you do not use the total budgeted amount you anticipated by the end of the year, you lose it. It does not become salary.

What does it do? It could prevent an audit by the IRS for those areas now targets. You eliminate Schedules 2106 and A Miscellaneous from your tax return. It will also save taxes since a portion of expenses listed on your 1040 are now subject to limitations. They are not subject to limitations if reimbursed. You do not report the reimbursed amount on the pastor's W-2. It is not income.

Pastor's Sample Professional Expense Fund

Business mileage—6,657 miles @ \$.55	=	\$ 3,661
Business gifts	=	100
Office supplies	=	100
Religious materials	=	100
Subscriptions and books	=	280
Seminar dues and conferences.....	=	1,000
Professional educational expense	=	500
Business telephone.....	=	150
Professional entertainment	=	260
Total professional expenses		<hr/> \$ 6,151

The above professional expenses are **not** part of salary but part of the cost to the church of a pastor performing his responsibilities for the church. The amount of the reimbursement fund can be re-evaluated at the beginning of each year, and the pastor can adjust his salary accordingly. This is a recent change; in past years the reimbursement fund and the pastor's salary could never affect each other (see note on bottom of page 14).

Substantiation of Expenses

Substantiation requirements. A taxpayer must substantiate by adequate records or by sufficient oral or written evidence the following types of expenses:

1. Traveling expenses including meals and lodging while away from home.
2. Entertainment expenses.
3. Business gifts.

Since 1985, taxpayers have been required to answer questions on their returns regarding the business use of an automobile including:

1. The total number of miles driven during the year.
2. The total number of business miles driven during the year.
3. Whether the vehicle was used for commuting and, if so, the distance normally commuted.
4. Whether the vehicle was available for personal use in off-duty hours.
5. Whether another vehicle was available for personal use.
6. Whether adequate records or sufficient evidence exists to justify the deduction and whether or not the evidence is written.

Elements to be substantiated. Taxpayers are required to substantiate the following elements:

1. The amount of each expense or other item.
2. The time and place of the travel, entertainment, amusement, recreation, or the date and description of the gift.
3. The business purpose of the expense or other item.
4. The business relationship to the taxpayer of the persons being entertained, or receiving the gift.

Adequate records. Adequate records or sufficient evidence include the following:

1. Account books, diaries and logs.
2. Documentary evidence (receipts, paid bills).
3. Trip sheets.
4. Expense reports.
5. Written statements of witnesses.

If a taxpayer does not have adequate records to substantiate his expenses, or if he cannot supply sufficient oral or written evidence thereof, no tax deductions or credits will be allowed with respect to an item. It should be noted that Congress has emphasized that different types of evidence have different degrees of probative value and that oral evidence alone has considerably less probative value than written evidence.

Proof of Entertainment Expenses

The elements to be proved with respect to an expenditure for entertainment are:

1. The amount of each separate expenditure for entertainment. (Incidental items such as taxi fares or telephone calls may be aggregated on a daily basis.)
2. The date of the entertainment.
3. The place of the entertainment.
4. The business purpose and the nature of the business benefit expected to be reaped by the taxpayer.
5. The business relationship to the taxpayer of the persons entertained (name, occupation, title).

Minutes for Professional Expense Reimbursement Fund. Having your professional expenses reimbursed by the church is a must. New IRS regulations require the reimbursement policy to be in writing and approved by the board (this is a one-time motion only).

Sample minutes should be as follows:

The chairman informed the meeting that according to Regulation 1.622 (TD8324), an employee who adequately accounts to the employing body the details of his professional expenses can be reimbursed.

A motion was made by _____ and seconded by _____ and passed to adopt the following resolution:

Resolved that in addition to the salary provided our employees, we will reimburse them for auto, travel and professional expenses considered ordinary and necessary for them to carry out their duties.

It is further understood that a person other than the employee will examine the adequately accounted records and that the records will be kept for at least six years by the employing body.

Note: Churches can re-evaluate the budgeted amount of professional expenses prior to the start of each calendar year, and according to Private Letter Rulings (9822044 and 199916011), can increase/decrease the pastor's salary to offset the increase/decrease in his professional expense account.

Auto Expenses

Optional method. For business use only (all business miles must be logged), the IRS allows you to deduct \$.55 per mile. In addition, you may deduct your actual toll and parking fees. A daily log book must be kept in order to use this method. Items to be daily noted are: date, odometer reading at beginning of trip, odometer reading at end of trip, miles driven for the day, place and purpose of the trip. This is the best method to use.

Regular method. (All miles must be logged.) This is an itemized list of your actual auto expenses consisting of gas, oil, lubrication, repairs, parts, tires, batteries, tune-ups, car washes, insurance, auto club dues, interest on auto loan, licenses, personal property tax, sales tax, auto rentals, parking fees, tolls on turnpikes and auto depreciation. The amount deducted is based on the percentage of miles used for business purposes. We rarely recommend this method.

Professional mileage. The following mileage rates apply:

	business	medical	moving	charitable	
				for Schedule A	if reimbursed
January 1–June 30, 2008	\$0.505	\$0.19	\$0.19	\$0.14	\$0.505
July 1–December 30, 2008	\$0.585	\$0.27	\$0.27	\$0.14	\$0.585
2009	\$0.55	\$0.24	\$0.24	\$0.14	\$0.55

Church-Owned Vehicle

It is becoming customary for churches to purchase automobiles for their pastor; accurate mileage records must be maintained. An amount for personal use must be added to the pastor's W-2. Please consult your tax preparer or the IRS lease tables (available on our website) for the correct computation.

Home Equity Loans or Refinancing Your Home

In private letter Ruling 9115051, the IRS has clarified their position. (Even though private letter rulings are not precedent setting, we believe following this would be wise tax counsel.)

The point here is that monies borrowed on your home must be used to provide a home as required by Section 107 in order to be included in the Housing Allowance. For example, the mortgage payment on a home equity loan where the monies were used to buy an automobile could not be used in the Housing Allowance. However, the interest on the home equity loan would be deductible on Schedule A of Form 1040.

Miscellaneous Business Record Form

Date	Purpose	Entertainment	Air Fares	Motels	Meals	Other
Totals						

Note: Retain receipts for motels and expenditures of \$75 or more.

What to Do if You're Audited

1. Know your return, especially the area being audited. Remember, you are responsible for the numbers represented on your tax return. Your records will be the key to the outcome.
2. Always maintain a cooperative spirit. The IRS has a difficult task to perform and they are just doing their jobs.
3. If you do not agree with the auditor's conclusions, you may appeal to his supervisor. If you still do not agree, you can request a conference with the Appeals Office by writing the District Director in your area.

Audit prevention tips

1. File your tax return on time.
2. Check the mathematics on your return.
3. Make sure you and your spouse sign and date the return.
4. Pay your taxes on time, either quarterly on Form 1040ES or by payroll deduction.
5. Clean up your return by understanding the tax law. For example, setting up a professional expense reimbursement policy with your church eliminates Schedule 2106 from your return. This is perhaps the most frequently audited schedule in a tax return.

We recommend the following resources:

■ **IRS Publication 517**

Social Security for Members of the Clergy and Religious Workers

■ **IRS Publication 557**

Tax Exempt Status for Your Organization

■ **IRS Publication 526**

Charitable Contributions

■ **IRS Publication 1828**

Tax Guide for Churches and Religious Organizations

■ **Christian Ministry Resources**

Richard R. Hammar

PO Box 2301, Matthews, NC 28106

(800) 222-1840

■ **The Stewardship Services Foundation**

James W. Rickard

21726 Placerita Canyon Rd., Santa Clarita, CA 91321

(661) 362-2TAX (362-2829)

■ **Internal Revenue Service Website**

www.irs.gov

■ **State Forms**

www.taxadmin.org/fta/link/forms.html



**The Stewardship
Services Foundation**
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