



2017 Tax Guide For Episcopal Ministers For 2016 Tax Returns

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Dear Friends,

The Church Pension Fund (CPF) is pleased to provide this *2017 Clergy Tax Guide*, the 18th edition of a customized Episcopal document, to assist you in the preparation of your federal income tax returns. Tax laws and regulations affecting clergy are extremely complex. Whether or not you prepare your own tax returns, it is essential that you understand the special tax rules pertaining to clergy. If another person prepares your tax returns, it is important that he or she study this publication as well.

In addition to providing the information contained in this tax guide, we have arranged for Nancy Fritschner, a CPA, and the Rev. Canon William Geisler, a retired CPA and regular lecturer on clergy and church tax issues, to be available by phone to answer your tax questions. You may call them at any time, using the toll-free 877 numbers listed on the following page, for answers to questions about your personal tax issues or those of your church. *Please note that the service these individuals will provide is of an informational nature. It should not be viewed as tax, legal, financial, or other advice. You must contact your tax advisor for assistance in preparing your tax returns or for other tax advice.*

As part of CPF's efforts to be wise stewards of the financial resources entrusted to us, as well as to conserve natural resources, we have provided the *2017 Clergy Tax Guide* online via a downloadable, searchable PDF format. Simply go to www.cpg.org/taxpubs. Your accountant or tax advisor can access this publication there, too.

Of course, we realize that some people still prefer printed copies, and so we are also providing those "on demand." To request a printed copy, go to www.cpg.org/taxpubs and click ***Request a printed copy*** or call (866) 802-6333. We hope all this will be helpful to you as you prepare your 2016 tax returns.

Faithfully,

A handwritten signature in blue ink that reads "Mary Kate Wold".

Mary Kate Wold
CEO and President

Tax Questions?

It is easier to prevent tax problems than to correct them.

Call us for assistance with:

- Tax return preparation questions
- Compensation packages for new positions
- Housing allowance explanations
- Advantages of reimbursable expense allowances
- Saving through The Episcopal Church Retirement Savings Plan (RSVP)
- Tax considerations before retirement
- Tax considerations after retirement

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An Important Message from the Editors

The editors of the tax guide are pleased to bring you this 18th edition of our publication. We trust that it has proven helpful to you over the years in filing your tax returns.

This tax guide includes changes you should be aware of during this filing season including those resulting from the Protecting Americans from Tax Hikes (PATH) Act, which Congress passed on December 18, 2015. We want to call your special attention to a few points.

- Clergy may claim only expenses relating to their principal residence when applying the housing allowance.
- On November 13, 2014, the U.S. Court of Appeals for the Seventh Circuit reversed the decision of a federal district court in the case *Freedom from Religion Foundation v. Lew* for lack of standing. The appeals court's ruling means that the housing allowance remains valid, for now. As such, the tax benefits of the housing allowance will remain unchanged at this time and clergy should continue to designate a housing allowance, if applicable.
- If you are a retired or disabled cleric, be advised that, every year, the Board of Trustees of The Church Pension Fund (CPF) formally designates distributions from The Church Pension Fund Clergy Pension Plan (the Clergy Pension Plan) and the Episcopal Church Retirement Savings Plan (RSVP) as a housing allowance, subject to all limits and restrictions under Section 107 of the Internal Revenue Code. For more information, consult the "Housing Allowance" section of this guide, beginning on page 12, and the CPF Form B on the following page.
- The Affordable Care Act contains tax provisions that will affect the 2016 income tax return you file this year. In particular, you will be required to demonstrate that you and your dependents have been covered by "minimum essential coverage" for each month of 2016. Note that health care coverage provided through a health plan sponsored by the Episcopal Church Medical Trust will meet the minimum essential coverage requirements under the Affordable Care Act.
- Form 1095-B, Health Coverage, should be provided to you by either the issuer or the sponsor of your health care plan and will report health care coverage provided to you and your dependents during any month of 2016.
- The IRS standard mileage rate for 2016 was 54 cents per mile. It is 53.5 cents per mile for 2017.
- Please consider asking a professional tax preparer to help you with your tax returns. The tax laws will probably change in 2017. You can reduce the cost of such help by preparing your records for the tax preparer's use.
- Please note that this guide reflects the tax laws in effect for tax year 2016, and will not be updated to reflect any changes in the laws that occur after January 1, 2017. As such, it is important that you consult your tax advisor before preparing your tax return.

We think you will find this publication helpful for you and/or your tax preparer. It may also be helpful when preparing a letter of agreement or planning for retirement. Please feel free to call us with any tax questions you may have. Remember, it is usually easier to prevent tax problems than to correct them.

Sincerely,



The Rev. Canon William F. Geisler, CPA-Retired



Nancy N. Fritschner, CPA



Laurence Dresner, ChFC

Federal Income Tax Status of The Church Pension Fund Benefits

The General Rule:

In accordance with Section 107 of the Internal Revenue Code, The Church Pension Fund (CPF) has designated the full amount of each pension benefit to be paid to retired and disabled clergy in 2017 including distributions from the RSVP, the extra Christmas Benefit, and the bridge benefit, as a housing allowance. However, the amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lesser of (1) the total amount you actually spend in a calendar year for items that directly relate to renting or providing a home, or (2) the fair rental value of your home (including furnishings) plus the cost of the utilities.

For Surviving Spouses and Children:

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them.

Tax law does not allow a housing allowance for surviving spouses or dependents.

How to Calculate:

While further details are available in IRS Publication 517 and the *2017 Tax Guide for Episcopal Ministers*, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

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

Resettlement Benefit May Qualify:

The Resettlement Benefit paid by CPF at the time of your retirement has also been designated as eligible for the housing allowance. It may be excluded from gross income to the extent that it is used in the taxable year in which it is received for the purpose of renting or providing a primary home, subject to the rules described above.

Importance of Records:

We strongly recommend that you keep good records, including all your calculations and expense records related to renting or providing your primary home. You may need them if tax questions or challenges develop.

How to Report:

The amount you decide to exclude from your gross income is not shown on your Federal tax return because it is an "exclusion," not a "deduction." The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 16a of your Federal Form 1040 [Line 12a of Federal 1040A]. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 16b of your Federal Form 1040 [Line 12b of Federal 1040A]. Line 16b should not be left blank; if all amounts received are used for housing purposes, you should enter a zero (0) on that line. **Please note that you will receive the Form 1099-R from Northern Trust as it is the paying agent for the Clergy Pension Plan. You may also receive a Form 1099-R from Fidelity Investments and/or Church Life Insurance Corporation if you had any distributions from an RSVP plan, as they are the paying agents for that plan. In addition, for any distributions from the RSVP processed by Fidelity Investments, please contact Fidelity Investments to notify them that your distribution is eligible for the housing allowance.**

SECA Tax:

Social Security Self-Employment tax (also called SECA tax) is not applicable to any part of the qualified retirement benefits paid by CPF. However, if you have other earnings from self-employment after retirement (from the church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Further Assistance:

We will, of course, assist in answering questions about specific benefits that you receive from CPF; please contact the Client Services Department at 866-802-6333. However, we cannot advise as to personal tax problems. If legal, accounting, or other expert assistance is required in connection with your tax returns, the services of a competent professional should be sought. For general questions concerning clergy taxes, you may call Nancy Fritschner at 877-305-1414 or William Geisler at 877-305-1415, toll-free.

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

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Current Status of the Parsonage and Housing Allowance Exclusions

By Richard R. Hammar, J.D., LL.M., CPA

On November 13, 2014, a federal appeals court reversed a ruling by a federal district court in Wisconsin striking down the housing allowance as an unconstitutional preference for religion. *Freedom from Religion Foundation, Inc. v. Lew*, 2014 WL 5861632 (7th Cir. 2014). The appeals court's ruling means that the housing allowance remains valid, for now. This means that churches should continue to designate a housing allowance for their ministers as in prior years. Churches that fail to designate a housing allowance for 2017 by the end of 2016 may designate one in early 2017, but the allowance will only operate prospectively. The amount of a minister's 2017 compensation designated by his or her employing church in advance as a housing allowance will remain nontaxable for income tax purposes so long as it is used for housing expenses and does not exceed either the fair rental value of a minister's home or the church-designated allowance. It also means that the housing allowance exclusion is available to ministers in computing taxes for 2016.

The appeals court concluded that the Freedom from Religion Foundation, and two of its officers, lacked standing to challenge the housing allowance. Standing is a constitutional requirement for anyone bringing a lawsuit in federal court, and generally means that a plaintiff must experience a direct injury. The Wisconsin court concluded that the plaintiffs had standing due to their "injury" of being denied a housing allowance exclusion should they claim one on their tax returns. But the appeals court refused to base standing on theoretical injury.

The court noted that to have standing to challenge the housing allowance, the Freedom from Religion Foundation's officers would have to file tax returns claiming a housing allowance, and then have their tax returns audited by the IRS and the housing allowance denied. Only then would their injury be sufficiently tangible to satisfy the standing requirement.

The Freedom from Religion Foundation and its two officers face two challenges. First, housing allowances cannot be designated retroactively, so it will not be possible for the officers to file amended tax returns for prior years, or claim a housing allowance for 2014. The Foundation will need to designate a housing allowance for a future year that is excluded from the officers' tax returns. Second, the IRS would then need to select one of these returns for audit. The audit rate is currently less than 1%, so it is unlikely that this would happen, even if the officers claimed housing allowances for several years.

Even if these hurdles are overcome, and the officers meet the standing requirement, this simply gets them back into federal court. The appeals court did not address the constitutionality of the housing allowance in its ruling. It simply said that the plaintiffs lacked standing to challenge the constitutionality of the allowance. The appeals court ultimately may rule that the housing allowance is constitutional. Or it may decide that it is not. Either way, the ruling likely will be appealed to the United States Supreme Court, which will take even more time. Clearly, these steps will take considerable time, and, pursuant to the Wisconsin court's original order, its ruling "will take effect at the conclusion of any appeals...or the expiration of the deadline for filing an appeal, whichever is later."

Should the Freedom from Religion Foundation and its two officers ultimately prevail in their quest to strike down the housing allowance as an unconstitutional preference for religion, what would be the impact? A ruling by the Seventh Circuit Court of Appeals would apply to ministers in that circuit, which includes the states of Illinois, Indiana, and Wisconsin. It would become a national precedent binding on ministers in all states if affirmed by the United States Supreme Court—an unlikely outcome because the Supreme Court accepts less than 1% of all appeals. Note, however, that the IRS would have the discretion to follow or not follow such a ruling in other circuits and might be inclined to follow it to promote consistency in tax administration. In conclusion, ministers and churches should be aware that the housing allowance remains under attack, and one day may be invalidated.

Should that occur, there are two actions that will need to be implemented quickly. First, ministers will experience an immediate increase in income taxes. As a result, they should be prepared to increase their quarterly estimated tax payments to reflect the increase in income taxes in order to avoid an underpayment penalty. Note that there will be no effect on self-employment taxes for which the housing allowance is not tax-exempt. And second, many churches will want to increase ministers' compensation to offset the financial impact. Such an increase could be phased in over a period of years to minimize the impact on the church.

Key Point

Ministers should address the continuing availability of the housing allowance with a tax professional.

How to Use This Guide

The 2017 Tax Guide for Episcopal Ministers is intended to familiarize clergy in the Episcopal Church with the latest filing requirements for their 2016 federal income tax returns. It gives special attention to several forms and schedules and the sections of each form or schedule most relevant to ministers. **Read it, and give it to your tax preparer!**

The 2017 Tax Guide for Episcopal Ministers contains the following sections:

Getting Started

This section offers answers to frequently asked questions, lists tax highlights for 2016, and gives tips on how to find a competent tax professional. Also included are some special notes for new clergy and special notes for those receiving a pension from The Church Pension Fund Clergy Pension Plan (Clergy Pension Plan).

Special Rules for Ministers

In this section, you learn whether or not you are a minister for tax purposes, whether you are an employee or self-employed for income tax, Social Security, and Medicare tax purposes, and how you pay your taxes.

Step-by-Step Tax Return Preparation

This section gives detailed explanations of the most common tax forms and schedules used by ministers. This step-by-step material serves informational purposes only, and does not represent any suggestion on the part of the author, our editors, or The Church Pension Fund that you try filing your tax return yourself, i.e., without the assistance of a tax professional. In practice, our tax guide has made quite the opposite impression upon our users over the years. The more that ministers learn about the special complexities they face under current federal income tax, Social Security, and Medicare tax guidelines, *the more convinced they become to seek competent professional tax assistance.*

Please note that this guide is provided to you for informational purposes only, and should not be viewed as tax, legal, financial, or other advice. If tax, legal, financial, or other expert assistance is required, seek the services of a competent professional.

Getting Started

Preliminary Q&A

To help get you started with your 2016 federal income tax return, here are answers to some frequently asked questions:

Q. Must ministers pay federal income taxes?

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

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

A. Generally, ministers are required to file a federal income tax return if they have earnings of \$400 or more.

Q. Can I use the simpler Forms 1040-A or 1040-EZ rather than the standard Form 1040?

A. Most ministers must use the standard Form 1040.

Q. What records should I keep?

A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits for a minimum of four years. Confer with your tax preparer for additional requirements.

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

A. April 18, 2017.

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

A. You can obtain an automatic six-month extension (from April 18, 2017, to October 16, 2017) to file your 2016 Form 1040 if you file Form 4868 by April 18, 2017, with the IRS service center for your area. Your Form 1040 can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to file your return; it is not an extension of the obligation to pay your taxes. Therefore, you must make an estimate of your tax balance for 2016 and pay any balance due with your Form 4868. Penalties and interest may accrue on any balance due after April 18, 2017.

Q. Should I prepare my own tax return?

A. Given the complexities of federal tax law, it would be prudent to obtain professional tax assistance.

Finding a Tax Professional

If you decide to seek professional tax assistance, here are some tips that may help you find a competent professional:

- Ask your diocesan finance officer for recommendations.
- Use a tax preparer who is familiar with the rules that apply to clergy.
- Ask local tax professionals whether they have worked with ministers and, if so, how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security and Medicare tax purposes. Anyone familiar with ministers' taxes will know that ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to required income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.

Provide your tax preparer with a copy of this *2017 Tax Guide for Episcopal Ministers*. Please support The Church Pension Fund's "Go Green" campaign to save paper (and money) by consulting the online (PDF) version available at www.cpg.org/taxpubs.

Tax Highlights for 2016

This tax guide includes changes you should be aware of during this filing season.

1. **Business mileage rate.** The IRS standard business mileage rate is 54 cents per mile for business miles driven during 2016. The standard business mileage rate for 2017 is reduced to 53.5 cents per mile.
2. **American Opportunity Tax Credit.** The American Opportunity Tax Credit is available for up to \$2,500 for qualified higher education expenses paid during a taxable year per student. This credit has been made permanent. Taxpayers can receive a tax credit based on 100% of the first \$2,000 of tuition and related expenses and 25% on the next \$2,000 of those expenses paid during the taxable year. This tax credit is subject to a phase-out for single filers with a modified adjusted gross income (AGI) of more than \$80,000, or \$160,000 for joint filers. Forty percent of this credit is refundable for individuals with no income tax liability. This credit is available for four tax years of higher education expenses per student.
3. **Lifetime Learning Credit.** The Lifetime Learning Credit is worth up to \$2,000 per tax return (20% of qualified education expenses up to \$10,000 for the taxpayer, the taxpayer's spouse, and/or their dependents). For 2016, the credit is subject to a phase-out for joint filers with a modified AGI of more than \$111,000, and \$55,000 for all other filing statuses. The credit is completely phased out at \$131,000 for married filing jointly and \$65,000 for other filing statuses. This is a nonrefundable credit and can only be used to offset federal income tax. The taxpayer will not be able to claim the American Opportunity Tax Credit or the Lifetime Learning Credit unless or until the taxpayer has received a Form 1098-T from the educational institution.
4. **Above-the-line deduction for qualified tuition and related expenses.** Taxpayers can claim an above-the-line tax deduction for qualified higher education expenses. The maximum deduction is \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns). The deduction is extended retroactively through 2016. It is not allowed if taxpayers have an AGI of \$160,000 or above for married filing jointly or \$80,000 or above for other filing statuses.
5. **Dollar limit on 403(b).** The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan is \$18,000 for 2016 and \$18,000 for 2017.

6. **Catch-up limit on 403(b).** The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$6,000 in 2016. It remains at \$6,000 for 2017.
7. **Working during retirement.** Many churches employ persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits reduced if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years. If you are younger than full retirement age, there is a limit to how much you can earn and still receive full Social Security benefits. If you're younger than full retirement age during all of 2017, your Social Security benefits will be reduced \$1 for every \$2 you earn above \$16,920. If you reach full retirement age during 2017, your Social Security benefits will be reduced by \$1 for every \$3 you earn above \$44,880 for 2017 until the month you reach full retirement age. Special rules apply to individuals who retire mid-year. No reduction in Social Security benefits occurs for income earned in the month full retirement age is attained (and all future months). For more information on your situation, contact the Social Security Administration.
8. **Inflation adjustments.** For 2016, the following inflation adjustments took effect:
 - The value of each personal and dependency exemption, available to most taxpayers, increased to \$4,050.
 - The new standard deduction is \$12,600 for married couples filing a joint return; \$6,300 for singles and married individuals filing separately; for heads of households, the standard deduction increases to \$9,300 for 2016.
9. **Employer-provided commuting expenses.** The exclusion for employer-provided reimbursement for van-pooling and mass transit passes was \$255 per month for 2016. The exclusion for parking costs was \$255 per month for 2016. The exclusion for qualified bicycle costs was \$20 per qualified bicycle commuting month in 2016. All numbers remain the same for 2017.
10. **Affordable Care Act.** In addition to the various provisions discussed above, new taxes also took effect January 1, 2013, as a result of The Patient Protection and Affordable Care Act:
 - **Failure to maintain minimum essential health care coverage.** Health care coverage provided through any of the Episcopal Church Medical Trust (Medical Trust) plans meets the minimum essential coverage requirements under the Affordable Care Act. Failure to maintain minimum essential healthcare coverage will result in a tax of the greater of \$695 or 2% of household income over a filing threshold for 2016

(\$695 or 2.5% of income in 2017). The IRS requires health insurance issuers and plan sponsors of self-funded plans to issue Forms 1095-B to members. This form is used to verify that you and your dependents maintained minimum coverage for each month in 2016. You should review the form carefully to ensure that the information is complete and accurate. Note that you do not need to file this Form 1095-B with your income tax return, but you should maintain the form with your tax records. If you participate in a health plan sponsored by the Medical Trust, you will receive a Form 1095-B from the Medical Trust.

- **Additional hospital insurance tax on high-income taxpayers.** The employee portion of the hospital insurance tax, normally 1.45% of covered wages for FICA purposes and 2.90% for self-employed earnings for SECA purposes, is increased by 0.9% on wages and self-employed earnings that exceed a threshold amount. The additional tax is imposed on the combined wages and self-employed earnings of both the taxpayer and the taxpayer's spouse, in the case of a joint return. The threshold amount for this additional tax is \$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return, and \$200,000 for all others, including single taxpayers. This amount is not indexed for inflation.
- **Medicare tax on investment income.** An additional tax on individuals equal to 3.8% will apply to unearned income; specifically the lesser of the individual's net investment income for the year or the amount by which an individual's modified adjusted gross income (AGI) exceeds a threshold amount. The threshold amount for this additional tax is \$250,000 in the case of a married couple and \$200,000 for all others, including single taxpayers. Net investment income means investment income reduced by deductions properly allocable to that income. Investment income includes income from interest, dividends, annuities, royalties, and rents, and net gain from disposition of property, other than such income derived in the ordinary course of a trade or business. However, income from a trade or business that is a passive activity is included in investment income. This amount is not indexed for inflation.
- **Medical care itemized deduction threshold.** The threshold for the itemized deduction for unreimbursed medical expenses has increased from 7.5% of AGI to 10% of AGI for regular income tax purposes. This is effective for all individuals, except, in the years 2013 – 2016, if either the taxpayer or the taxpayer's spouse has turned 65 before the end of the tax year, the increased threshold does not apply and the threshold remains at 7.5% of AGI.

- **Health flexible spending arrangement.** For 2016, the maximum amount of salary reduction contributions that an employee may elect to have made to a health flexible spending arrangement is \$2,550. This amount changes to \$2,600 for 2017.

- **Form 1095-B and Form 1095-C.** Please note, for the 2016 tax year, you should receive a Form 1095-B (Health Coverage) or a Form 1095-C (Employer-Provided Health Insurance Offer and Coverage) as the requirement to issue these tax forms to taxpayers became effective for the 2016 tax reporting year.

Special Notes for New Clergy

Some of the tax tips that follow, intended specifically for new clergy, must be adopted before compensation is earned in any given year. In other words, they may not apply to your first year of reporting in 2016, but they will serve you well going forward.

- When negotiating your contract as a new minister, make certain that a proper housing allowance resolution has been adopted by the vestry (or other governing body) before compensation payments begin.
- Also, when negotiating contracts, arrange for reimbursable expense plans for automobile and other necessary business expenses.
- Begin personal retirement savings through a Section 403(b) plan, such as the RSVP, as soon as possible.
- Discretionary funds are the property of your church employer. Be careful to use them only for proper purposes. You are accountable to the church for such funds.
- Make certain your compensation details have been properly reported to The Church Pension Fund, and that regular payments are being made by your church employer to The Church Pension Fund for the required assessments. Clergy should be proactive in keeping The Church Pension Fund aware of all life event changes (e.g., marriage, divorce, birth or adoption of child, and change of employment).

Special Notes for Those Receiving Distributions from Plans Sponsored by The Church Pension Fund

Many retired clergy find it particularly advantageous to engage the services of a CPA, enrolled agent, or tax attorney for regular help in tax planning and return preparation. As you will discover in reviewing the special notes provided below, tax in reviewing for retired ministers is tricky and complicated.

- Pension benefits from any clergy plan sponsored by The Church Pension Fund are designated annually by the Board of Trustees of The Church Pension Fund as a housing allowance for federal income tax purposes. To the extent that these amounts are spent for qualified expenses for your primary residence, they may be excluded from income taxation, subject to the housing allowance limitations. You should annually keep a copy of CPF Form B for your tax files.

- The total of all pensions received should be entered on line 16(a) on page 1 of Form 1040. The taxable portion (which includes the amount of any pension benefits from plans sponsored by The Church Pension Fund that are not being used for qualifying housing expenses) should be reported on line 16(b). You must enter a number — even if it is "0" — on line 16(b).

- Earnings from ministerial services after retirement are also eligible for designation as housing allowance. Such designation should not be requested if your church pension income is adequate to cover your qualified housing expenses.

- Self-employment tax (SECA) is due on all earned income, even while drawing Social Security and pension benefits. Include any housing allowance and the fair rental value of a rectory or other housing provided. Failure to include the proper value of such housing could result in additional tax liabilities, plus interest and penalties. If this income is not reported, the statute of limitations on assessing tax adjustments may not apply.
- Housing provided to ministers employed for a short time away from home (short time is generally considered to be a contract for one year or less) in some cases can be treated as a reimbursable business expense and not be subject to income tax or self-employment tax. Contracts for an indefinite period, or a specific period of more than one year, would not qualify for such exclusion. Such arrangements could result in moving your "tax home" (primary residence). Be very careful about the wording of interim ministry contracts.
- Pensions are not earned income and therefore are not subject to self-employment tax (SECA).
- It is unclear whether payments from a non-qualified deferred compensation plan are subject to self-employment tax (SECA).
- Moving expenses are not deductible unless you are moving at least 50 miles to a new, full-time position. See Form 3903. The costs of moving your furniture may be eligible for Section 107 exclusion under your housing allowance, subject to limits.
- If you are considering moving to a long-term care facility, make certain that it will give you a breakdown each year of the portions of your payments that represent the cost of housing, medical expenses, and other items. It is necessary to have such information to take proper advantage of your housing allowance and medical expense deductions on your income tax returns. Note that the IRS has ruled that the lump-sum entrance fee paid by a retired minister to gain admission to a long-term care facility can only be treated as a housing expense in the year it is actually paid and cannot be prorated over several years.

Special Notes for Those Age 65 or Older Regarding Medicare Supplement Health Plan Coverage

- A person eligible for Medicare (age 65 or older) who either returns to work or continues to work as an employee may be eligible to participate in the employer's Medical Plan as an active participant.
- If the post-65 retired employee is eligible for employer-provided health benefits as defined by his or her employer, Medicare prohibits the Plan from offering the post-65 retired employee coverage under the Medicare Supplement Health Plan.
- If the post-65 retired employee who is working for the Episcopal Church after retirement does not qualify for employer-provided coverage, then the post-65 retired employee may be eligible to purchase the Medicare Supplement Health Plan.
- The Medical Trust must comply with the government's Medicare Secondary Payer (MSP) law, which outlines when Medicare is not responsible for paying first for health claims. Medicare requires employers' group health plans to be the primary payer of health claims for individuals who are working and eligible for active group health care coverage.

Key Point

- Be sure to check with your diocese before beginning post-65 employment to determine whether you are **eligible** for employer-provided health benefits.

Failure to comply with the Medicare Secondary Payer rules could result in loss of coverage and the assessment of penalties against the employer.

When a minister no longer qualifies for employer-provided medical coverage, it is important that the minister contact Medicare and Episcopal Church Medical Trust Client Services to reactivate proper coverage.

- **Withdrawals from RSVP.** Before you make any withdrawals (including required minimum distributions) from the RSVP, be sure to contact Fidelity to inform them that you are a member of the clergy and are eligible to take the distribution as a clergy housing allowance. Be sure to ask them to identify the distribution as "taxable amount not determined" for Form 1099-R tax reporting purposes.

Key Point

If you have questions, it is always better to call these tax lines before taking action:

Nancy Fritschner: (877) 305-1414

William Geisler: (877) 305-1415

Special Rules for Ministers

Who Is a Minister for Federal Tax Purposes?

❶ Key Point

The IRS has its own criteria for determining who is a minister for tax purposes.

In the Episcopal Church, only bishops, priests, and deacons (ordained ministers as opposed to lay ministers) meet the criteria for the IRS designation of "minister."

Whether or not one qualifies as a minister for tax purposes is a very important question, since special tax and reporting rules apply to ministers under federal income tax law. These rules include:

1. Eligibility for housing allowances
2. Self-employed status for Social Security and Medicare tax purposes
3. Exemption of wages from income tax withholding (ministers may use the quarterly estimated tax procedure to pay their taxes, unless they elect voluntary withholding)

These special rules apply only with respect to compensation for services performed in the exercise of ministry. The approval of an Extension of Ministry under the Clergy Pension Plan does not automatically qualify a cleric for clergy tax treatment. Pay received for work performed for organizations not associated with the Church may not qualify as the "exercise of ministry." Work performed directly for the Church is considered "exercise of ministry," no matter the nature of the work. Generally, work for non-church organizations does not qualify for the housing allowance, unless the work is primarily sacerdotal. Pay for such work is subject to income tax and self-employment tax withholding.

❷ Example

John is a minister at his church. In addition, he works a second job as a counselor for a school district. Assume that John qualifies as a minister for federal income tax purposes. Since his church duties constitute services performed in the exercise of ministry, the church can designate a housing allowance for him. However, the secular employer cannot designate any portion of John's compensation as a housing allowance, since this work would not be service in the exercise of ministry. Extension of ministry for pension contribution purposes does not necessarily result in eligibility for clergy treatment including the housing allowance for income tax purposes.

Are Ministers Employees or Self-employed for Federal Tax Purposes?

There is much confusion regarding this issue. Most Episcopal ministers with continuing relationships with their employers are considered employees for federal income tax purposes under the tests currently used by the IRS and the courts, and should receive IRS Forms W-2 from their churches or employers reporting their taxable incomes.

This statement applies to part-time as well as full-time employees. However, all ministers are self-employed for Social Security and Medicare tax purposes (with respect to services they perform in the exercise of their ministry).

❸ Key Point

Avoid confusion about your tax status by recognizing that ministers have a dual tax status. For federal income taxes, they ordinarily are employees, but for Social Security and Medicare tax purposes they are self-employed with regard to services performed in the exercise of ministry. These two rules are summarized under two headings in this section of the *2017 Tax Guide*: "Income Taxes: Ministers as Employees" and "Social Security and Medicare Taxes: Ministers as Self-Employed."

Income Taxes: Ministers as Employees

For federal income tax reporting, most Episcopal ministers are employees under the test currently used by the IRS. This means that they should receive a Form W-2 from their churches at the end of each year (rather than a Form 1099). Many ministers who are employees of a local church are self-employed for other purposes, such as payments by individuals for performing weddings, baptisms or funerals, or payments received for appearances as guest speakers in other churches.

❹ Example

Bob is a minister at Grace Church. He is an employee for federal income tax reporting purposes with respect to his church salary. However, he is self-employed with respect to honoraria he receives for speaking in other churches and for compensation church members give him for performing personal services such as weddings and funerals. The church issues Bob a Form W-2 reporting his church salary. Bob reports this amount as wages on line 7 of Form 1040. He reports his compensation from self-employment activities on Schedule C.

❺ Key Point

Most ministers will be better off being treated as employees, since the value of various fringe benefits will be tax-free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

❻ Tax Savings Tip

Ministers and other church staff members should carefully review their Forms W-2 to ensure that the forms properly report the income actually received.

If an error was made, the church should issue a corrected tax form (Form W-2c).

The Tax Court Test. The United States Tax Court has issued two rulings addressing the correct tax reporting status of ministers. In both cases the court applied a

seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. These seven factors are:

1. The degree of control exercised by the employer over the details of the work
2. Which party (employer or employee) invests in the facilities used in the work
3. The opportunity of the individual for profit or loss
4. Whether the employer has the right to discharge the employee
5. Whether the work is part of the employer's regular business
6. The permanency of the relationship
7. The relationship the parties (employer/employee) believe they are creating

Most ministers will be employees under this test.

Social Security and Medicare Taxes: Ministers as Self-Employed

For Social Security and Medicare tax reporting purposes, ministers are deemed to be self-employed by law with respect to services performed in the exercise of ministry — even if their income is reported as an employee by their church using IRS Form W-2. This is an absolute rule — no exceptions! All ministers must complete Schedule SE (to Form 1040) for all earned income received from the church.

Key Point

While most ministers are employees for federal income tax reporting purposes, all ministers are self-employed for Social Security and Medicare tax purposes (with respect to services they perform in the exercise of their ministry). In other words, ministers are not subject to Social Security and Medicare tax withholding, even though they report their income taxes as employees and receive a Form W-2 from their church. Rather, they pay the “self-employment tax” (SECA).

Key Point

Ministers who work after they retire must pay SECA on their wages (unless they exempted themselves from Social Security as a minister and they are employed in a ministerial capacity).

Key Point

Ministers who work at secular jobs will be treated as lay people in their secular employment.

Key Point

Remember that ministers who reside in church-provided housing must include the fair rental value, furnished, plus utilities, of church-owned housing and the declared furnishings allowance when calculating self-employment income.

Key Point

Some denominations allow their clergy to elect out of Social Security as a conscientious objection to receipt of social insurance. The Episcopal Church does not support this option on theological grounds.

Some Episcopal ministers have opted out of Social Security without realizing that they do not qualify for the exemption. It should be noted that, when signing a Form 4361, a minister must attest to its accuracy under penalty of perjury.

A decision to opt out of Social Security is irrevocable. Clergy who opt out of Social Security, especially those who have vested benefits with Social Security from previous employment outside the church, may be subject to the Windfall Elimination Provision (WEP). Go to www.irs.gov and Publication 963 for more information.

Key Point

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

How Do Ministers Pay Their Taxes?

Key Point

Ministers may prepay their income taxes by using the estimated tax procedure or by voluntarily asking their churches to withhold taxes. Both procedures should take into account enough withholding to cover both income taxes and self-employment taxes, even though for Form W-2 reporting purposes, the employer should report the total amount withheld as federal income tax.

To choose voluntary withholding, provide the employer with a Form W-4 specifying the amount to be withheld. The amount may be changed during the year by providing a new Form W-4. Underpaying estimated taxes or under-withholding taxes may result in an underpayment penalty.

Key Point

Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed Form W-4 (withholding allowance certificate). Since ministers are not employees for Social Security and Medicare purposes, the church must not withhold the employee’s share of Social Security and Medicare taxes. **However, ministers can request on Form W-4 that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year.** The excess income tax withheld can be applied against the minister’s self-employment tax liability. Such withholding must be reported as income tax withheld on Form W-2.

Estimated income and self-employment taxes must be paid in quarterly installments. If your estimated taxes paid for the current year are less than your actual income and self-

employment taxes, you may have to pay an underpayment penalty. You can change your estimated tax payments during the year if your circumstances change.

You will need to make estimated quarterly tax payments for 2017 if you expect to owe at least \$1,000 in tax for 2017 after subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of:

- 90% of the tax to be shown on your 2016 tax return,
- 100% of the tax shown on your 2016 tax return, or
- 110% if adjusted gross income exceeds \$120,000

Four Steps: Paying Your Taxes

The four-step procedure for reporting and pre-paying estimated taxes for 2017 is summarized below.

Step 1. Obtain a copy of IRS Form 1040-ES for 2017, before April 15, 2017. You can obtain forms by calling the IRS toll-free forms hotline at (800) TAX-FORM or (800) 829-3676, or from the IRS website: www.irs.gov.

Step 2. Compute your estimated tax for 2017 using the Form 1040-ES worksheet.

Step 3. Pay one-fourth of your total estimated taxes for 2017 in each of four quarterly installments as follows:

For the period	Due date
January 1 – March 31	April 15, 2017
April 1 – May 31	June 15, 2017
June 1 – August 31	September 15, 2017
September 1 – December 31	January 15, 2018

If the due date for making an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if it is postmarked on the next day that is not a Saturday, Sunday, or legal holiday. You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES.

Key Point

Most clergy will find it easier to have tax withheld and reported on the Form W-2 (for work-related income) or withheld from the pension and reported on the Form 1099-R from The Church Pension Fund (if retired). New retirees should reduce their withholding by the SE (self-employment) tax owed for work in the prior year. If managing this withholding procedure is difficult for your parish, you might consider a professional payroll service.

Step 4. Compute actual taxes at the end of the year. After the close of 2016, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, if actual taxes computed on Form 1040 are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2017 quarterly estimated tax payment or spread it out in any way you choose among any or all

of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, if your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

Step-by-Step Tax Return Preparation

Tax Forms and Schedules

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

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

Schedule A is for itemized deductions for medical and dental expenses, taxes, interest, contributions, casualty and theft losses, and miscellaneous items. Some expenses related to ministerial income may also be deducted on Schedule A.

Schedule B is for reporting dividend and interest income.

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

Schedule SE is for Social Security and Medicare taxes due on your self-employment income and on your salary and housing allowance as an employee of the church, if you are an ordained minister.

These forms and schedules, along with others, are included in the illustrated examples beginning on page 35 of this guide. They are the ones most commonly used by ministers, but you may have a need for others. Forms are available on the IRS website, www.irs.gov. They may also be obtained at your local IRS office or by calling the IRS toll-free forms hotline at (800) TAX-FORM or (800) 829-3676.

Form 1040

Step 1: Name, address, and Social Security numbers

Print or type information in the spaces provided. If you are married filing a separate return, enter your spouse's name on line 3 instead of below your name. If you filed a joint return for 2015 and you are filing a joint return for 2016 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2015 return. If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address. If you changed your name because of marriage, divorce, etc., be sure to report the change to the Social Security Administration (SSA) before filing your return. This prevents delays in processing your return and issuing a refund. It also safeguards your future Social Security benefits. Enter your P.O. Box number only if your post office does not deliver mail to your home.

If you want \$3 to go to the presidential election campaign fund, check the box labeled "yes." If you are filing a joint return, your spouse can also have \$3 go to the fund (check "spouse"). Regardless of your answer, the amount of taxes you owe or the amount of refund you receive will not change.

Step 2: Filing status

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

In 2015, the United States Supreme Court ruled that the right of same-sex couples to marry is part of the Fourteenth Amendment's guarantee of due process and equal protection of the laws, and therefore any state law that in any way limits this right is unconstitutional and void. [*Obergefell v. Hodges*, 135 S. Ct. 2584 (2015).] The effect of the Court's decision was to invalidate laws and constitutional provisions in 13 states defining marriage solely as a union between one man and one woman, and to treat same-sex marriages the same as opposite-sex marriages for purposes of federal tax law.

Key Point

Legally married same-sex couples generally must file their 2016 federal income tax return using either the "married filing jointly" or "married filing separately" filing status.

Step 3: Exemptions

You generally are allowed one exemption for yourself. If you are married, you may be allowed one exemption for your spouse. These are called personal exemptions. Some restrictions apply (see IRS Publication 501).

You are allowed one exemption for each person you claim as a dependent. The term "*dependent*" means a *qualifying child* or *qualifying relative*. If you claim a dependency exemption for a qualifying child, the child must be a United States citizen or resident, and meet the following five tests:

1. **Relationship test.** The child must be your child (including an adopted child, stepchild, or eligible foster child), brother, sister, stepbrother, stepsister, or a descendant of any of them.
2. **Residency test.** The child must have lived with you more than half of 2016. An exception applies, in certain cases, for children of divorced or separated parents.
3. **Age test.** At the end of 2016, the child must be under age 19, or under age 24 and a student, or any age and permanently and totally disabled.
4. **Support test.** The child must not have provided over half of his or her own support in 2016.
5. **Special test.** If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.

To claim a dependency exemption for a qualifying relative, the relative must meet all of the following conditions:

1. The person must be either your relative (which the IRS defines as a brother, sister, stepbrother, stepsister, or a descendent of one of these relatives) or any other person (other than your spouse) who lived in your home all year

- as a member of your household. If the person is not your relative, your relationship must not violate local law.
2. The person cannot be your qualifying child (see above) or the qualifying child of another person in 2015.
 3. The person must have gross income of less than \$4,000. If the person is permanently and totally disabled, certain income from a sheltered workshop may be excluded for this purpose.
 4. You must have provided over half of the person's support in 2016. Exceptions apply, in certain cases, for children of divorced or separated parents and for a person supported by two or more taxpayers.

The following conditions apply both to the qualifying child or qualifying relative exemptions:

1. You cannot claim any dependents if you, or your spouse if filing jointly, could be claimed as a dependent by another taxpayer.
2. You cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.
3. You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico, for some part of the year.

For more information on dependents, see IRS Publication 501.

Step 4: Income

Several items of income are reported on lines 7 through 21. The most important of these (for ministers) are discussed below.

Key Point

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

Line 7. Wages, salaries, tips, etc. Attach Form W-2

Key Point

The amount reported on line 7 ordinarily will be the same as reported by the church as wages in Box 1 of the minister's Form W-2.

As an employee, you should receive a Form W-2 from your church reporting your wages at the end of each year. Report this amount on line 7. Then, determine if this amount reflects all of your church earnings. If it does not, report the remaining income on line 21 as other income.

Besides a salary, ministers' wages may include several other items, such as:

- Bonuses
- Additional funds received while on sabbatical, except for eligible reimbursed business expenses
- Most Christmas and special occasion offerings to the minister

- Retirement gifts made from church funds
- The portion of the minister's Social Security and Medicare tax paid by a church as an offset
- The value of the personal use of a church-provided car
- Purchases of church property for less than fair-market value
- Reimbursements the church made for the minister's moving expenses (but not if the minister meets the requirements of Form 3903)
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (this represents income to the minister unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- Any funds of the church to which a minister has access (including the church's discretionary funds) and which are taxable income to the minister, if the minister is not accountable to the church for the expenditures
- Personal expenditures from church funds, which, even if accounted for, are taxable income to the minister
- "Below-market interest loans" to a minister of at least \$10,000, which create taxable income to the minister
- Forgiveness of a minister's debt to the church, which creates taxable income to the minister
- Severance pay
- Payment by the church of a minister's personal expenses
- Business expense reimbursements paid under a "non-accountable plan" (a non-accountable business expense reimbursement arrangement is one that does not require substantiation of business expenses, or does not require excess reimbursements to be returned to the church, or that reimburses expenses out of salary reductions)
- Imputed cost of group term life insurance coverage exceeding \$50,000 and the cost of group term life insurance coverage of spouse or dependents if over \$2,000 is paid by the church
- Imputed value of employer-provided health coverage provided to adult children as of the beginning of the calendar year after the child turns 26, as well as non-dependent domestic partners and their children
- The value of a free trip for leading mission trips or group tours

Key Point

The value of group term life insurance provided by The Church Pension Fund for active clergy will, in most cases, exceed \$50,000. Coverage in excess of \$50,000 will produce imputed income. Additional coverage from the parish or diocese may also produce imputed income. The value of this imputed income should be included in Box 1 of your Form W-2. Any amounts not included on Form W-2 should be reported on Form 1040.

Key Point

Housing equity allowance paid directly to a cleric's RSVP account should not appear in Box 1.

If your church's per diem rate for expenses exceeds the federal per diem rate for expenses, the excess must be reported as income in Box 1 of Form W-2. Refer to IRS Publications 463 and 1542 for additional information.

Key Point

The IRS can assess intermediate sanctions in the form of a substantial excise tax against a minister who is an officer or director of his or her employing church, and in some cases against church board members, if the minister is paid an excess benefit. Excess benefits may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion "gift" to a minister, gives church property (such as a rectory) to the minister, or sells church property to the minister at an unreasonably low price. A rebuttable presumption arises that compensation is reasonable if it is approved by an independent board on the basis of "comparable data" or independent compensation surveys and the basis for the board's decision is documented.

Key Point

The IRS has ruled that "disqualified persons" receive "automatic" excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes, or receive non-accountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income by the church on the disqualified person's Form W-2, or by the disqualified person on his or her Form 1040, for the year in which the benefits are provided. A disqualified person is an officer or director of the employer, or a relative of such a person. The concept of automatic excess benefits will directly affect the compensation practices of most churches, and expose some ministers and church board members to intermediate sanctions.

If some of these items were not reported on your Form W-2, they still must be reported as income. Either have your church issue a "corrected" Form W-2 (Form W-2c) or report the items as other income on line 21. Be sure this oversight is addressed and corrected for future years.

Items not reported on line 7

Some kinds of income are not taxable. These items are called exclusions. Most exclusions apply in computing both income taxes and self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes.

Some of the more common exclusions are detailed below:

1. Gifts are excludable from taxable income so long as they are not in fact compensation for services performed. However, employers generally are not permitted to give tax-free gifts to employees.
2. Life insurance proceeds and inheritances are excludable.

3. Medical insurance premiums paid by an employer for employees (and their spouses and dependents) under a group health plan are excludable. This exclusion is not available to self-employed individuals.
4. Employees may exclude from their taxable income a qualified tuition reduction provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.
5. The value of free child-care services provided by a church to its employees is excluded from employees' income so long as the benefit is based on a written plan that does not discriminate in favor of highly compensated employees. Other conditions may apply.
6. Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000. Amounts provided in excess of \$50,000 are treated as taxable income.
7. Amounts paid by an employer for an employee's tuition, fees, and books may be excludable from the employee's taxable income under an educational assistance program. The exclusion may not exceed \$5,250 per year. Please be aware that to qualify as an educational assistance program, the plan must be written and must meet certain other requirements. Your employer can tell you whether there is a qualified program where you work.
8. Many of the exclusions are not available to employees who are either "highly compensated employees" or "key employees" if the same benefit is not available on a nondiscriminatory basis to lower-paid employees. For 2016, a highly compensated employee (as per Internal Revenue Code section 414(q)(1)(B)) is an employee whose compensation for the previous year was in excess of \$120,000.

There are four other exclusions that will be discussed separately — the housing allowance, Section 403(b) Plans, qualified scholarships, and sale of one's home.

Housing Allowance

The clergy housing allowance exclusion represents a potential federal income tax exclusion for all clergy who are compensated by the Episcopal Church for their ministerial services. This exclusion also is applicable to most — though not all — state income taxes. Note, however, that the clergy housing allowance never is excluded from self-employment taxes. The rules for claiming a housing allowance vary depending on whether your housing is owned/rented or church-provided.

Key Point

Surviving spouses of clergy are not eligible to claim the housing allowance exclusion for income they receive from the Episcopal Church after the death of the cleric. However, income the cleric received from the

Episcopal Church prior to the date of death is eligible to be excluded from income if used for qualified housing.

The housing allowance exclusion is the most important tax benefit available to ministers who own or rent their homes.

Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that it:

- Represents compensation for ministerial services
- Does not exceed the compensation for ministerial services
- Represents payment for actual qualified housing expenses (a list of which appears below)
- Does not exceed the formally designated housing allowance amount approved by your vestry in advance of payment of your compensation
- Does not exceed the fair rental value of the home, furnished, plus utilities

! Key Point

The last three bullets in the above list constitute the housing allowance “three-part test.” Clergy who work in the Episcopal Church are eligible to exclude a housing allowance that is the least of these three amounts: actual housing expenses; formally designated housing allowance approved by the vestry in advance of compensation; the fair rental value, furnished, plus utilities of the home.

! Key Point

To establish “fair rental value” for IRS documentation purposes, consider hiring a professional realtor who is familiar with your neighborhood to visit your home and give you a written estimate of that value.

! Key Point

It is the responsibility of the cleric — not the church employer — to do the following: consult with a realtor to get a written appraisal of the fair rental value of the furnished home; establish the maximum allowable housing allowance (by adding utility costs to the realtor’s appraisal); and — based on those figures — recommend a housing allowance amount to the vestry. The vestry’s only responsibility is to vote its approval of that housing allowance designation and to document its action in the minutes of the meeting.

! Key Point

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

Under no circumstances can a church designate a housing allowance retroactively.

Ministers who live in church-provided housing do not pay federal income taxes on the fair rental value of the housing. The fair rental value is not “deducted” from the minister’s income. Neither is it reported as additional income anywhere on Form W-2. However, the fair rental value of the housing (including utilities provided by the church) plus any cash

housing allowance must be included in the self-employment tax computation.

Clergy in church-provided housing may request a formal housing allowance resolution that functions much like the one requested by clergy who own or rent, except that the cleric in church-provided housing should begin by asking a professional realtor for two written estimates: the fair rental value of the church-provided housing, and the value that his/her furnishings add to the fair rental value. It is this added-value figure that may be submitted to your vestry as your housing allowance resolution amount.

\$ Tax Savings Tip

Although this value-added housing allowance figure may not be as large as the housing allowance figure claimed by clergy who rent/own, it is nonetheless an important income tax benefit. Unfortunately, many ministers in church-provided housing are not aware of this benefit and are not taking advantage of it.

! Key Point

Many ministers have obtained home equity loans or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans to be qualified housing expenses that may count toward the fulfillment of their housing allowances. The Tax Court has ruled that this is permissible only to the extent that the loan proceeds were used for housing-related expenses.

! Key Point

Payment of debts secured by a mortgage on your home provides a significant part of the qualified expenses for the housing allowance exclusion. To enter retirement with this debt is a personal decision based on many financial and personal factors. Consult your tax preparer.

\$ Tax Savings Tip

Ministers should place the designation of a housing allowance for the next year on the agenda of a vestry meeting during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. Newly employed clergy should make sure to request a housing resolution from the vestry before starting work.

If a minister continues to work after retirement, the minister must pay self-employment tax on earnings, including a housing allowance, and/or the fair rental value, furnished, plus utilities, of a rectory that is part of the total package of compensation.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a Form W-2 or a Form 1099-R).

Housing expenses that qualify toward fulfilling your housing allowance exclusion

Ministers who own or rent their homes should take the following expenses into account when claiming their housing allowance exclusions (but remember that a housing allowance is nontaxable only to the extent that it does not

exceed the lesser of actual housing expenses or the fair rental value of a minister's home, furnished, plus utilities):

- Mortgage payments on a loan to purchase or improve your home (include interest, principal, and mortgage insurance)
- Rent for home, storage, garage
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, cable TV excluding pay-per-view, trash pickup, local telephone charges, and internet)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (pest control, etc.)
- Homeowners' association dues
- Down payment on a home

Warning

Such payment may not qualify all or in part if it is paid before the cleric has occupied the house as a primary residence and it may cause expenditures to exceed the fair rental value limit.

Please note the following:

1. The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses, and, for ministers who own their home, does not exceed the fair rental value of their home, furnished, plus utilities.
2. A housing allowance must be designated in advance. Retroactive designations of housing allowances will not be recognized as valid by the IRS.
3. Although many Episcopal institutions traditionally pass housing allowance resolutions at the end of one tax year in anticipation of the next, a housing allowance can be amended at any time during the year. However, an amendment that increases a housing allowance mid-year to take into account an unexpected increase in a cleric's housing expenses is only effective prospectively. Also, remember that it serves no purpose to amend a housing allowance to an amount greater than the fair rental value of a minister's home, furnished, plus utilities.
4. Some ministers routinely designate the IRS-allowed upper limit (which is the fair rental value, furnished, plus utilities) as their housing allowances, even in those years that actual housing expenses may not attain that figure. Their reasoning is simple: if unexpected housing expenses should occur, this maximum allowable amount will cover them; if actual expenses do not reach the claimed amount, then the excess should be included in the total on Form 1040, line 7; on the dotted line next to line 7, enter "excess housing" and the amount. However, not all ministers are comfortable with claiming the maximum amount and then adjusting line 7 every year; this seems especially true for clerics

whose actual housing expenses tend to be very low. Consider consulting a tax professional to determine a housing allowance strategy that works best for you.

5. The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on Schedule SE (unless they are exempt from self-employment taxes).
6. The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

Example

St. Luke's Church designated \$20,000 of Donald's 2016 compensation as a housing allowance. Donald's housing expenses for 2016 were utilities of \$2,000, mortgage payments of \$8,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home (including furnishings) is \$12,000. Donald's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of his home, furnished, plus utilities. Stated differently, the nontaxable portion of a housing allowance is the least of the following three amounts:

- The housing allowance designated by the church (\$20,000)
- Actual housing expenses (\$17,000)
- The fair rental value of the home, furnished (\$12,000), plus utilities (\$2,000), for a total of \$14,000

In this case, the lowest of these three amounts is the fair rental value of the home, furnished, plus utilities (\$14,000), and so this represents the nontaxable portion of Donald's housing allowance. Donald must report the difference between this amount and the housing allowance designated by his church (\$6,000) on line 7 of Form 1040.

Example

Same facts as the previous example, except that the church designated \$12,000 of Donald's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000, the church-designated housing allowance, and so this represents the nontaxable amount. Note that Donald's actual housing expenses were more than the allowance, and so he was "penalized" because of the low allowance designated by his church.

Example

Yvonne owns a home and incurs housing expenses of \$12,000 in 2016. These expenses include mortgage principal and interest, property taxes, utilities, insurance, and repairs. The church designated (in advance) \$12,000 of Yvonne's 2016 compensation as a housing allowance. Yvonne is able to itemize expenses on Schedule A (Form 1040). She is able to claim itemized deductions on Schedule A for both her mortgage interest and her property taxes, even though her taxable income was already reduced by these items because of their

inclusion in the housing allowance. This is often referred to as the “double deduction.” In reality, it represents an exclusion and a deduction.

Example

In preparing his income tax return for 2016, Harry discovers that his church failed to designate a housing allowance for him for 2016. He asks his vestry to pass a resolution retroactively granting the allowance for 2016. Such a resolution is ineffective, and Harry will not be eligible for any housing allowance exclusion in 2016.

Key Point

The Sarbanes-Oxley Act makes it a federal crime to knowingly falsify any document with the intent to influence “the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States ... or in relation to or contemplation of any such matter or case,” and this provision contains no exemption for churches or ministers. It is possible that the “backdating” of a vestry resolution to qualify for a housing allowance for the entire year violates this provision in the Sarbanes-Oxley Act, exposing the vestry and minister to a fine or imprisonment. Even if the minister’s action does not violate the act, it may result in civil or criminal penalties under the tax code.

Warning

If you are sharing the expenses of your principal residence with someone who is not your legal spouse according to federal law, you are entitled to claim an exclusion only for those expenses that you pay. State laws may vary.

Tax Savings Tip

The IRS may recognize designations included in employment contracts and budget line items — assuming in each case that the designation was duly adopted in advance by the church. However, since the IRS specifies that it expects a resolution of the governing board (vestry) of the church, relying on these other methods may not be sufficient.

Key Point

Expenditures for a potential primary residence, such as a down payment and other costs, may not qualify if the minister still lives in another house. You should consult your tax preparer or advisor before taking action.

How much should your housing allowance be?

Key Point

The housing allowance should be based on an estimate of the fair rental value of the house, furnished, plus utilities. In the case of clergy living in church-provided housing, the resolution should be based on how much their furnishings add to the fair rental value of the housing.

Key Point

The housing allowance is available only if these conditions are met:

1. The recipient is a minister for tax purposes (as defined above); and
2. The allowance is compensation for services performed in the exercise of ministry for a church or church agency.

Warning

Please note that, although clergy who work in non-church organizations and have successfully completed The Church Pension Fund’s Extension of Ministry process may pay assessments on their non-church work into the Clergy Pension Plan, the Extension of Ministry designation does not automatically qualify them for a clergy housing allowance exclusion.

Key Point

Three things that parishes and vestries may not know about housing allowances:

1. Parishes and vestries should not be in the business of determining the housing allowances for their ministers.
2. Vestries should approve the housing allowance that each minister recommends (as long as it does not exceed that minister’s compensation).
3. Approving a housing allowance resolution costs the parish nothing.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church may discover on March 1, 2017, that it has failed to designate a housing allowance for 2017. It is not too late to act. The church should immediately designate a portion of its minister’s remaining compensation in 2017 as a housing allowance. This unfortunate problem can be avoided by stipulating in each annual housing allowance designation that the allowance shall be for the current year and for all future years unless otherwise provided. If such a resolution had been adopted sometime before 2017, it would not matter that the church neglected to designate a minister’s 2017 allowance until March of 2017, since the previous designation would have “carried over.” Such “safety net” designations are not a substitute for annual housing allowances. Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

Clergy Receiving Pensions

One hundred percent of your pension has been declared eligible for housing. You pay no self-employment taxes on the pension whether used as housing or not. The determination of the housing exclusion is done when filing your return. You put the entire amount of the pension on Line 16a of Form 1040 and the taxable amount (if any remains) on Line 16b. If you use 100% of your pension as housing, be sure to put “0” on Line 16b. See Form B preceding the Table of Contents.

Interim Clergy

Many active and retired clergy serve in interim positions that are far enough removed from their primary residences to require relocation. If such a position continues for one year or less, then the original home continues to be the primary residence for housing allowance purposes.

Active clergy may request the vestry of the interim church to designate a portion of their compensation as housing allowance based on their primary residence. In such cases the housing at the interim location will be treated as reimbursable business expenses rather than as compensation. Per diem meal allowances also will be excluded from compensation and reimbursed as a business expense. However, if the interim position is for an indefinite period or lasts for more than one year (even one day longer), the interim residence will be considered the primary residence for tax purposes from the first day in the position. The housing allowance will then be based solely on housing costs at the new location and will not be eligible for reimbursable "out of town" living expenses.

Similar provisions apply to retired clergy serving in interim positions except that, since they are receiving pensions from the Clergy Pension Plan, they must look first to their pensions for the housing allowance benefit. Only if their pension is not enough to cover their allowable housing expenses may they request that a portion of their compensation be designated as housing allowance.

Two Examples of Vestry Housing Resolutions

Sample housing allowance resolution for a minister who lives in a church-provided rectory:

The following resolution was duly adopted by the vestry of Grace Church at a regularly scheduled meeting held on December 20, 2016, a quorum being present:

Whereas, the Reverend John Smith is compensated by Grace Church exclusively for services as a minister of the gospel; and

Whereas, Grace Church provides Fr. Smith with rent-free use of a church-owned rectory as compensation for services that he renders to the church in the exercise of his ministry; and

Whereas, Fr. Smith incurs expenses for living in church-provided housing; therefore, it is hereby

Resolved, that the annual compensation paid to Fr. Smith for calendar year 2017 shall be \$50,000, of which, \$5,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$5,000 as a housing allowance shall apply to calendar year 2017 and all future years unless otherwise provided by the vestry; and it is further

Resolved, that as additional compensation to Fr. Smith for calendar year 2017 and for all future years, unless otherwise provided for by this vestry, Fr. Smith shall be permitted to live in the church-owned rectory located at 123 Main Street, and that no rent or other fee shall be payable by Fr. Smith for such occupancy and use.

Sample housing allowance resolution for a minister who owns or rents his home:

The following resolution was duly adopted by the vestry of Christ Church at a regularly scheduled meeting held on December 20, 2016, a quorum being present:

Whereas, the Reverend Samuel Johnson is compensated by Christ Church exclusively for services as a minister of the gospel; and

Whereas, Christ Church does not provide Fr. Johnson with a rectory; therefore, it is hereby

Resolved, that the total compensation paid to Fr. Johnson for calendar year 2017 shall be \$50,000, of which \$15,000 is hereby designated to be a housing allowance; and it is further

Resolved, that the designation of \$15,000 as a housing allowance shall apply to calendar year 2017 and all future years unless otherwise provided.

Key Point

Remember: churches cannot designate a housing allowance retroactively. A housing allowance may be increased during the year for the balance of the year, but it should not exceed the current fair rental value, furnished, plus utilities.

The Church Pension Fund designates all retirement benefits paid to ministers (through the Clergy Pension Plan, as well as the RSVP) as housing allowance. It is the responsibility of the minister to determine the eligible housing expenses. (See CPF Form B, preceding the Table of Contents.)

It should be noted that the housing allowance benefit ceases with the date of death of the minister. Surviving spouses are not entitled to exclude any portion of their benefits as housing allowance.

The self-employment tax does not apply to any retirement benefits received by a minister (except possibly retirement benefits paid from a non-qualified deferred compensation plan). Self-employment tax does apply to earned income, including the value of housing, if provided after retirement as part of the total package of compensation.

Keep in mind that your housing allowance is not counted as income when figuring federal income taxes but is included in figuring Social Security (SECA) and Medicare tax on all earned income.

Tax-Sheltered Annuities: Section 403(b) Plans

Pre-tax salary deferrals and employer contributions made to a 403(b) plan are not reportable income for income tax purposes, subject to contribution limits.

Key Point

The Church Pension Fund offers a 403(b) plan, the RSVP, to ordained employees of the Episcopal Church. For more information, contact us at (866) 802-6333 Monday – Friday, 8:30AM – 8:00PM ET (except holidays).

Contribution limits

For 2016, total annual additions (employer contributions, salary reduction, and tax-paid contributions) cannot exceed the lesser of 100% of your compensation (excluding a minister's housing allowance) or \$53,000. This figure increases to \$54,000 for 2017. This rule is known as the "Section 415(c) limit." If your annual addition exceeds this limit, then the excess amount plus earnings must be distributed and included in gross income. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA. Excess contributions can result in income tax, additional taxes, and penalties. Note that you can continue to fund your 403(b) plan at any age from current church-earned income.

For purposes of determining the limits on contributions under Section 415(c) of the Internal Revenue Code, amounts paid to an employee minister, as a tax-free housing allowance, may not be treated as compensation pursuant to the definitions of compensation under Section 1.415-2(d) of the income tax regulations.

Salary reduction contributions, Section 402(g)

In addition to the Section 415(c) limit, there is an annual limit on pre-tax elective deferrals. The limit applies to the total of all elective deferrals contributed (even if contributed by different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans, such as the RSVP sponsored by The Church Pension Fund. Generally, you cannot defer more than an allowable amount each year for all plans covering you. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year. The dollar limit on annual elective deferrals is \$18,000 for 2016 and remains at \$18,000 for 2017.

Key Point

Church employees can make a special election that allows their employer to contribute up to \$10,000 for the year, even if this is more than 100% of your compensation. The total contributions over your lifetime under this election cannot be more than \$40,000. Note that this option currently is not available under the RSVP.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of:

1. The "applicable dollar amount"
2. The participant's compensation for the year reduced by any other elective deferrals of the participant for the year

The applicable dollar amount is \$6,000 for 2017. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

Qualified scholarships

Key Point

Qualified scholarships are excludable from taxable income.

Only amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for:

1. Tuition and fees required for the enrollment or attendance at an educational institution
2. Fees, books, supplies, and equipment required for courses of instruction at the educational institution

The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient use the scholarship for such expenses and that the scholarship does not specify that it is to be used for non-qualified expenses (such as room and board).

Key Point

Amounts paid by a church for the education of a minister or other church employee cannot be treated as a nontaxable scholarship if paid "as compensation for services."

Any amount received in excess of the qualified tuition and related expenses (such as amounts received for room and board) is not eligible for this exclusion.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income. In addition, amounts paid by a church for the education of a minister or other church employee cannot be treated as a nontaxable scholarship if paid "as compensation for services."

Example

St. Anne's establishes a scholarship fund for seminary students. Robert is a member who is pursuing a master's degree at a seminary. The church votes to award him a scholarship of \$1,500 for 2017. As long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal income tax return, and the church need not issue him a 1099-MISC. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (for example, fees, books, supplies), or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated and the recipient used it for non-qualified expenses.

Sale or exchange of your principal residence

For sales of principal residences the following rules apply: An individual taxpayer can exclude up to \$250,000 (\$500,000 if married and filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the sale or exchange. A taxpayer who failed to meet these requirements by reason of a change of place of employment, health, or certain unforeseen circumstances could exclude an amount equal to the fraction of the two years that the ownership and use requirements were met.

Key Point

The death of a spouse may give the surviving spouse a stepped-up basis in the cost of the house.

Any gain from the sale or exchange of a principal residence allocated to periods of non-qualified use is not excluded from gross income. The amount of gain allocated to periods of non-qualified use is the amount of gain multiplied by a fraction, the numerator of which is the aggregate periods of non-qualified use during the period the property was owned by the taxpayer, and the denominator of which is the period the taxpayer owned the property.

A period of non-qualified use does not include:

1. Any portion of the five-year period ending on the date of the sale or exchange after the last date you (or your spouse) use the property as a main home
2. Any period (not to exceed an aggregate period of 10 years) during which you (or your spouse) are serving on qualified official extended duty as a member of the uniformed services
3. Any other period of temporary absence (not to exceed an aggregate period of two years) due to change of employment, health conditions, or such other unforeseen circumstances as may be specified by the IRS

Line 8a. Taxable interest. Attach Schedule B if required

Complete this line only if you had taxable interest income. If you had taxable interest income of more than \$1,500, complete parts I and III of Schedule B. Report tax-exempt interest income on line 8b.

Line 9a. Ordinary dividends. Attach Schedule B if required

Complete this line only if you had dividend income. If you had dividend income of more than \$1,500, complete parts II and III of Schedule B. Report qualified dividend income on line 9b.

Line 10. Taxable refunds, credits or offsets of state and local income taxes

If you took the itemized deduction on your 2015 taxes, you will need to complete the state and local tax worksheet to determine whether you need to report this as income for 2016. If you took the standard deduction, you do not include this amount.

Line 11. Alimony received

If you receive alimony payments, you will need to report them as taxable income. Child support payments are not taxable and should not be listed here.

Line 12. Business income or loss. Attach Schedule C or C-EZ

Complete this line only if you have any net earnings from self-employment activities. These include:

- Compensation reported to you on a Form 1099-MISC
- Fees received directly from church members for performing personal services (such as marriages and funerals)
- Honoraria you received for guest speaking appearances in other churches

If you received income from any of these kinds of activities, compute your net earnings on Schedule C or C-EZ and transfer this amount to line 12. Most ministers may use the simpler Schedule C-EZ if several conditions are met. See the instructions to Schedule C-EZ for details.

Line 13. Capital gain or loss. Attach Schedule D

Complete this line only if you have any gains or losses from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on Schedule D. You also may have to file a Form 8949 (see the instructions to both forms for details).

Line 14. Other gains or losses. Attach Form 4797

Use this line if you sold or exchanged assets that were used in a business.

Line 15b. IRA distributions taxable amount

Enter the taxable portion of your IRA distributions on this line. There are many types of distributions on multiple types of IRA accounts, including traditional, Roth, SEP (simplified employee pension), and SIMPLE (savings incentive match plan for employees). Many are eligible for an exception to immediate taxation (such as rollovers from one IRA to another). If your distribution fits one of these exceptions, you will use box 15a for the gross distribution and box 15b for any taxable portion. Review IRS Publication 590, "Individual Retirement Arrangements" to get a better understanding of the taxability of these distributions. Consult your tax advisor.

Line 16a. Pensions and annuities

The retirement benefits you receive from the Clergy Pension Plan, Section 403(b) plans, such as the RSVP, and other deferred compensation are reportable under federal and some state income tax laws. At your direction, The Church Pension Fund will withhold federal and/or state tax from your pension benefits. The 1099-R form you receive from Northern Trust (the agent for the Clergy Pension Plan) or from Fidelity Investments (the agent for the RSVP) reports to the IRS the gross amount of the pension benefits and any amount withheld for income taxes.

Line 16b. Pensions and annuities taxable amount

The Board of Trustees of The Church Pension Fund annually designates 100% of the clergy retirement and disability benefits from plans sponsored by The Church Pension Fund (e.g., the Clergy Pension Plan and the RSVP) as a qualified

housing allowance. Consistent with that designation, if you are a minister, the Form 1099-R will show that the taxable amount of the pension income is “not determinable.” If you are a retired or disabled minister, you may exclude all or a portion of your pension or disability income from your gross income reported on line 16a of Form 1040 if:

1. You can document that the monies were actually spent on housing-related expenses during the tax year.
2. The amount excluded does not exceed the fair-market rental value of the home, furnished, plus utilities.

The Church Pension Fund Form B, which documents the formal housing allowance resolution passed annually by the Board of Trustees of The Church Pension Fund, precedes the Table of Contents.

Warning

Do not report any pension income as earned income in computing self-employment taxes. If you are using a computer program to prepare your taxes, be sure that it does not treat the nontaxable portion of your pension as being subject to the self-employment tax. Some programs will do so if you report the exclusion as a housing exclusion rather than as nontaxable pension.

Key Point

It should be noted that the housing allowance benefit ceases with the date of death of the minister. Surviving spouses are not entitled to exclude any portion of their benefits as housing allowance.

Warning

Before you make any withdrawals (including required minimum distributions) from the RSVP, be sure to contact Fidelity to inform them that you are a member of the clergy and are eligible to take the distribution as a clergy housing allowance. Ask them to mark the taxable amount as “undetermined.”

Key Point

All of the pension income reported on your Form 1099-R must be reported on line 16a. The taxable portion — even if “0” — must be reported on line 16b.

Some portion of your pension may be attributable to pension contributions you paid personally. If you paid pension contributions personally, you may be entitled to an exclusion of part of the pension benefits. See IRS Publication 571 for more information.

Taxation of distributions from a 403(b) plan

Amounts you contribute through salary reduction, and the earnings attributable to these contributions, generally cannot be withdrawn before you reach age 59½, separate from service, die, or become disabled. In some cases of financial hardship, you may withdraw your own salary reduction contributions (but not the earnings on them) prior to the occurrence of any of the above events. A 403(b) plan may make hardship distributions only if permitted by the plan. In addition, if amounts are distributed prior to you reaching age 59½, you will be assessed an additional tax of 10%

of the amount that is includable in income (computed on Form 5329), unless one of the following exceptions applies:

1. The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries, and after you separate from service.
2. The distributions are made after you separate from service on or after age 55.
3. The distributions do not exceed the amount of unreimbursed medical expenses that you could deduct for the current year.
4. The distributions are made after your death, or after you become disabled.
5. The distributions are made to an alternate payee pursuant to a qualified domestic relations order.

Warning

Failure to meet scheduled payments of loans from 403(b) accounts will turn the remainder of any loans into taxable income.

Line 20a. Social Security benefits

Key Point

Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

If you received Social Security benefits other than Supplemental Security Income benefits (SSI) in 2016, part of the amount you received may be taxable. If you received Social Security benefits during 2016, you will receive (before January 31, 2017) Form SSA-1099 showing the amount of benefits you received. In determining whether or not your Social Security benefits received in 2016 are taxable, consider the following rules:

1. Your Social Security benefits generally are not taxable if your “provisional income” (adjusted gross income plus tax-exempt interest and some other forms of tax-exempt income plus half of your Social Security benefits) received during the year is less than \$25,000, if you are single, or \$32,000 if you are married and file a joint return. Use the provisional income worksheet in the 1040 Instructions. Your provisional income is considered \$0 if you are married, filing separately.
2. If your provisional income (defined above) received during the year is more than \$25,000 but less than \$34,000 if you are single, or more than \$32,000 but less than \$44,000 if you are married and file a joint return, some of your Social Security benefits are taxable. You are taxed on the lesser of:
 - Half of your Social Security benefits, or
 - Half of the amount by which your total income exceeds \$25,000 (if you are single) or \$32,000 (if you are married and file jointly)

3. If your provisional income (defined above) received during the year is more than \$34,000 if you are single, or more than \$44,000 if you are married and file a joint return, up to 85% of your benefits may be subject to tax.
4. Although the Social Security Administration has never officially addressed the issue, it is likely that a minister's housing allowance and/or rectory provided count as earnings for the purposes of the annual earnings tests.

Warning

Persons younger than full retirement age who are receiving Social Security benefits may have their Social Security retirement benefits reduced if they earn more than a specified amount. Consult your tax advisor.

Line 20b. Social Security taxable amount

After completing the Social Security Benefits Worksheet, enter any taxable amount of your Social Security on this line.

Line 21. Other income. List type and amount

Recommendation

If you have other income to report on line 21, consider enclosing an explanation of your other income with your Form 1040 or print a brief explanation in the space provided next to line 21. This will help to avoid confusion, particularly if the entries on line 21 include income subject to SECA and income not subject to SECA.

Complete this line only if you have other income, such as the following:

- Imputed income from group term life insurance coverage in excess of \$50,000 not included on Form W-2
- The amount by which your church-designated housing allowance exceeds the lower of your actual expenses, or the fair rental value of your housing, furnished, plus utilities, if not reported on line 7
- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair-market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on Schedule C)
- Most prizes and awards
- Taxable distributions from a Health Savings Account (HSA) or Archer MSA

Step 5: Adjustments to income

You may deduct certain adjustments from gross income in computing your adjusted gross income. Report the adjustments on lines 23 through 36 of Form 1040. The most relevant adjustments to ministers are summarized below.

Line 23. Educator expenses

A deduction of \$250 is available for 2016. This provision has been made permanent by the PATH Act of 2015 and the amount will be adjusted yearly for inflation.

Line 24. Certain business expenses of reservists, performing artists, and fee-basis government officials

Some expenses incurred by Episcopal ministers who serve as reservist chaplains may be eligible for this deduction. See Form 2106 if you believe you may qualify.

Line 25. Health savings account deduction

You may be able to take this deduction if you made personal contributions to your Health Savings Account in 2016. Complete Form 8889 and attach to Form 1040.

Line 26. Moving expenses

Key Point

Allowable moving expenses apply only to those who are moving to a new job. Allowable moving expenses do not apply to those moving to their retirement homes without a full-time job. The resettlement benefit paid from the Clergy Pension Plan is not a moving expense reimbursement.

If your "allowable moving expenses" are not reimbursed by your employer, or they are reimbursed under a non-accountable plan, compute your moving expense deduction on Form 3903, and report your deduction on line 26. If your employer reimburses your allowable moving expenses under an accountable plan, the reimbursements are not reported by the employer as taxable income, and you have no deduction to report on line 26. To be an accountable plan, your employer's reimbursement arrangement must require you to meet all three of the following rules:

1. Your expenses would have been deductible had you paid them yourself.
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.

Allowable moving expenses are expenses you incurred because of a change of jobs or your acceptance of a new job, if you satisfy the following conditions:

1. Your new job location is at least 50 miles farther from your former home than your old job location.
2. You must work full-time for at least 39 weeks during the first 12 months after you arrive in the general area of your new job location. You do not have to work for one employer for the 39 weeks. However, you must work full-time within the same general commuting area. If you are married and file a joint return and both you and your spouse work full-time, either of you may satisfy the full-time work test. However, you may not combine your weeks of work.
3. Your move must be closely related, both in time and place, to the start of work at your new job location. In general, moving expenses incurred within one year from the date you first reported to work are considered closely related in time to the start of work at the new location. It is not necessary that you make arrangements

to work before moving to a new location, as long as you actually do go to work. If you do not move within one year, you ordinarily may not deduct the expenses unless you can show that circumstances existed that prevented the move within that time. A move is generally not closely related in place to the start of work if the distance from your new home to the new job location is greater than the distance from your former home to the new job location.

Deductible moving expenses include the following:

Moving your household goods and personal effects. You may deduct the cost of packing, crating, and transporting your household goods and personal effects from your former home to your new one. You may also deduct the cost of storing and insuring household goods and personal effects within any consecutive 30-day period after the day your things are moved from your former home and before they are delivered to your new home.

Travel expenses. You may deduct the cost of transportation and lodging (but not meals) for yourself and members of your household while traveling from your former home to your new home. You may deduct expenses of only one trip to your new home. However, all of the members of your household do not need to travel together.

You may not deduct any of the following expenses as moving expenses: pre-move house-hunting expenses; temporary living expenses; the expenses of disposing of your former home and obtaining your new home; home improvements to help you sell your former home; loss on the sale of your former home; mortgage penalties; any part of the purchase price of your new home; meal expenses incurred while moving to your new home; and real estate taxes. Use Form 3903 to compute the deduction.

As noted above, if your employer reimburses your allowable moving expenses under an accountable arrangement, the reimbursements are not reportable as taxable income to you, and there are no deductions to report.

Line 27. Deductible part of self-employment tax

Key Point

Every minister who pays self-employment taxes on ministerial income qualifies for this deduction.

All ministers are self-employed for Social Security and Medicare tax purposes with respect to their ministerial income. They can deduct half of their actual self-employment taxes as an adjustment on line 27 of Form 1040. Any other earnings subject to self-employment tax also qualify for this treatment.

Line 28. Self-employed SEP, SIMPLE, and qualified plans
You may be eligible to deduct contributions for these plans from your self-employment income that is reported on Schedule C. Most Episcopal priests are considered employees for federal income tax purposes and cannot use this deduction. Your contributions to a 403(b) plan, such as the RSVP, are already deducted from your compensation before tax.

Line 29. Self-employed health insurance deduction

Taxpayers with Schedule C income may be able to deduct health insurance premiums, including qualified long-term care insurance, Medicare premiums, and group medical insurance premiums paid on behalf of themselves and their dependents.

Line 32. Payments to an individual retirement account (IRA)

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

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

To contribute to a traditional IRA, you must be under age 70½ at the end of the tax year. You, or your spouse if you file a joint return, must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income, or as deferred compensation.

For 2016, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) \$5,500 (\$6,500 if you are age 50 or older), or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse's IRA contribution for the year to a traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse.

The contribution limits remain the same for 2017.

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2016 IRA contribution must be made by April 18, 2017, even if you obtain an extension for filing this return.

If you or your spouse were covered by an employer retirement plan at any time during 2016 and you made IRA contributions, your allowable IRA deduction may be less than your contributions. Even if your spouse is covered by an employer-sponsored retirement plan, you may be able to deduct your contributions to an IRA for 2016 if you were not covered by an employer plan and your adjusted gross income was less than \$194,000 for 2016.

Your allowable deduction may be reduced or eliminated, depending on your filing status and the amount of your income. The deduction begins to decrease (phase out) when your income rises above a certain amount and is

eliminated altogether when it reaches a higher amount. (See IRS Publication 590.) The amounts vary depending on your filing status. The W-2 form you receive from your church or other employer has a box used to show whether you were covered for the year. The “Pension Plan” box should have a mark in it if you were covered. Employer retirement plans include 403(b) tax-sheltered annuities.

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

Individuals who cannot claim a deduction for an IRA contribution still can make non-deductible IRA contributions, subject to the lesser of \$5,500 for 2016 or income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and non-deductible contributions were made to the IRA. Form 8606 is used to designate a contribution as non-deductible and must be filed, or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10% penalty tax that also applies to deductible IRA contributions.

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

Distributions made prior to age 59½ may be subject to a 10% additional tax. You also may owe an excise tax if you do not begin to withdraw minimum distributions by April 1 of the year after you reach age 70½.

A Roth IRA differs from a traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make nondeductible contributions to a Roth IRA. You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a traditional IRA, a Roth IRA can be set up, but there are limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to Publication 590 for additional information on Roth IRAs.

For information on conversions from a traditional IRA to a Roth IRA, refer to Publication 590. No further contributions to a traditional IRA are permissible in the year you reach age 70½ or for any later year, and distributions from a traditional IRA must generally begin by April 1 of the year following the year in which you reach age 70½. However, you must receive at least a minimum amount for each year starting with the year you reach age 70½ (your “70½ year”). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year. This means that you will have two required distributions in that year.

Summarized below are a few important rules that pertain to IRAs.

- Taxpayers can make early withdrawals from an IRA to pay for qualified higher education expenses of the taxpayer or the taxpayer’s spouse, or the taxpayer’s or spouse’s child, grandchild, parent, or other ancestor — without triggering the 10% penalty that applies to early distributions from an IRA.
- Taxpayers can withdraw up to \$10,000 from their IRA prior to age 59½ for first-time homebuyer expenses without triggering the 10% penalty that applies to premature distributions.
- Qualified charitable distributions of up to \$100,000 could be made from an IRA to a church or other charity in 2016. A qualified charitable distribution was any distribution from an IRA directly by the IRA trustee to a charitable organization, including a church, that was made on or after the date the IRA owner attains age 70½. This provision has been made permanent by the PATH Act of 2015.

Example

A church has a senior pastor who is 52 years old, and a youth pastor who is 30 years old. The church does not participate in a retirement program for its staff. In 2016 the senior pastor can contribute \$7,000 to an IRA (maximum annual contribution of \$6,000 plus a “catch-up” contribution of \$1,000), and the youth pastor can contribute \$6,000.

Key Point

The “Pension Plan” box should have a mark in it if you were covered. Employer retirement plans include the Clergy Pension Plan and the RSVP.

Line 33. Student loan interest deduction

You may be able to deduct up to \$2,500 of student loan interest paid on qualified education loans if your income is below a certain threshold for your tax status.

Line 34. Tuition and fees. Attach Form 8917

You may be eligible for this deduction for up to \$4,000 if you paid qualified education expenses for yourself, your spouse, or other dependents. See Form 8917 for more details.

Tax Savings Tip

You may qualify for an even greater tax credit for these education expenses. Review the instructions and information for “Line 49. Education credits.”

Step 6: Adjusted gross income

Line 37. Compute adjusted gross income

Subtract your total adjustments (line 36) from your total income (line 22) to compute your adjusted gross income (line 37). Carry this amount to line 38 at the top of page 2 of your Form 1040.

Step 7: Tax computation

Line 40. Itemized deductions (from Schedule A) or your standard deduction

Itemize your deductions on Schedule A only if they exceed the standard deduction for your filing status. On line 40 you enter either your itemized deductions from Schedule A or

a standard deduction amount. Itemized deductions are discussed under Schedule A, beginning on page 25 of this guide. For 2016, the standard deduction amounts are as follows:

<i>Filing Status</i>	<i>Standard Deduction Amount</i>
Single	\$6,300
Married filing jointly or qualifying widow(er)	\$12,600
Married filing separately	\$6,300
Head of household	\$9,300

Line 42. Personal exemptions

The 2016 personal exemption amount is \$4,050. Multiply this amount times the number of exemptions claimed on line 6 and enter the total on line 42. Personal exemptions are phased out for certain high-income taxpayers.

The instructions to Form 1040 contain a worksheet that should be used to compute this reduced exemption amount.

Line 44. Compute tax

Most ministers can use the tax tables to determine their income taxes. Some higher-income ministers must use the tax rate schedules (a spouse's income is considered in deciding whether or not to use the tax rate schedules).

Line 46. Excess advance premium tax credit repayment

The premium tax credit helps pay premiums for health insurance purchased from the Health Insurance Marketplace. If advance payments of this credit were made for coverage for you, your spouse, or your dependent, complete Form 8962. If the advance payments were more than the premium tax credit you can claim, enter the amount, if any, from Form 8962, line 29. If you enrolled someone who is not claimed as a dependent on your return, or for more information, see the instructions for Form 8962.

Step 8: Credits

Line 49. Credit for child and dependent care expenses. Attach Form 2441

Complete this line if you are eligible for a credit for child or dependent care expenses.

Line 50. Education credits

Using Form 8863 to do the computation, complete this line if you are eligible for the Lifetime Learning Credit or the American Opportunity Tax Credit. See tax highlights #2, #3, and #4.

Line 51. Retirement Savings Contributions Credit ("Saver's Credit"). Attach Form 8880

If you make eligible contributions to certain eligible retirement plans or to an individual retirement account (IRA), you may be able to take a tax credit. The amount of the saver's credit you can get is generally based on the contributions you make and your credit rate. Refer to Publication 590 or the instructions for Form 8880 for more information. If you are eligible for the credit, your credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. The lower your income, the higher the credit rate;

your credit rate also depends on your filing status. These two factors will determine the maximum credit you may be allowed to take. You are not eligible for the credit if your adjusted gross income exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b) plan, a SIMPLE or a simplified employee pension (SEP), contributions to a traditional or Roth IRA, and voluntary after-tax employee contributions to a 403(b) plan or qualified retirement plan. The amount of the credit for 2016 is described in the following table.

Retirement Plan Credit Rate						
<i>Joint Returns</i>		<i>Heads of Household</i>		<i>All Other Cases</i>		<i>Applicable Percentage</i>
over \$0	not over 37,000	over \$0	not over 27,750	over \$0	not over 18,500	50%
\$37,001	40,000	\$27,751	30,000	\$18,501	20,000	20%
\$40,001	61,500	\$30,001	46,125	\$20,001	30,750	10%
\$62,000	---	\$46,500	---	\$31,000	---	0%

For married couples filing jointly, each spouse is eligible for the credit.

For more information about this credit, see IRS Form 8880 and Publication 590.

Line 52. Child tax credit

An individual may claim a tax credit for each qualifying child under the age of 17 at the end of 2016. The amount of credit per child is \$1,000. A child who is not a citizen, national, or resident of the United States cannot be a qualifying child. A qualifying child:

1. Is a son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them; for example, your grandchild, niece or nephew
2. Was under age 17 at the end of 2016
3. Did not provide over half of his or her own support for 2016
4. Lived with you for more than half of 2016
5. Is claimed as a dependent on your return
6. Does not file a joint return for the year
7. Was a U.S. citizen, a U.S. national, or a U.S. resident alien

You must reduce your child tax credit if either of the following exceptions applies:

1. The amount on Form 1040, line 46; Form 1040A, line 28; or Form 1040NR, line 44, is less than the credit. If this amount is zero, you cannot take this credit because there is no tax to reduce. But you may be able to take the additional child tax credit.
2. Your modified adjusted gross income (AGI) is above the following amounts:
 - Married filing jointly: \$110,000
 - Single, head of household, or qualifying widow(er): \$75,000
 - Married filing separately: \$55,000

For most taxpayers, modified AGI is generally the same as AGI. But, see IRS Publication 972 for exceptions.

The child tax credit is in addition to the dependent care credit you can claim if you pay someone to care for your dependent child who is under age 13 (or a disabled dependent) so you can work.

An “additional child tax credit” exists for certain individuals who get less than the full amount of the child tax credit. The additional child tax credit may give you a refund even if you do not owe any tax. A worksheet in IRS Publication 972 will assist you in determining your eligibility for the additional child tax credit.

Step 9: Other taxes

Now that you have subtracted credits from your federal income tax, you report other taxes you may owe.

Line 57. Self-employment tax. Attach Schedule SE

Ministers are self-employed for Social Security and Medicare tax purposes with respect to their ministerial income. They compute their self-employment taxes on Schedule SE and report the total tax on line 57 of Form 1040.

Key Point

Ministers must pay self-employment taxes on compensation received from the exercise of their ministry.

Line 61. Health care: individual responsibility

Individuals must have health care coverage, qualify for a health coverage exemption, or make a shared responsibility payment with their tax return.

If you had qualifying health care coverage (called minimum essential coverage) for every month of 2016 for yourself, your spouse (if filing jointly), and anyone you could or did claim as a dependent, check the box on this line and leave the entry space blank. Otherwise, do not check the box on this line and see the instructions for Form 8965. Refer to the Form 1095-B that you should have received from your health insurance issuer or the plan sponsor of your health plan for information on your health care coverage for 2016.

Minimum essential coverage: Most health care coverage that people have is minimum essential coverage. Minimum essential coverage includes health care coverage provided by your employer, health insurance coverage you buy through the Health Insurance Marketplace, many types of government-sponsored health coverage including Medicare, most Medicaid coverage, most health care coverage provided to veterans and active duty service members, and certain types of coverage you buy directly from an insurance company. See the instructions for Form 8965 for more information on what qualifies as minimum essential coverage.

Premium tax credit: If you, your spouse, or a dependent enrolled in health insurance through the Health Insurance Marketplace, you may be able to claim the premium tax credit. See the instructions for line 69 and Form 8962.

Key Point

Health care coverage provided through any of the Episcopal Church Medical Trust Plans will meet the minimum essential coverage requirements under the Affordable Care Act.

Line 62. Additional Medicare Tax. Attach Form 8959

A 0.9% Additional Medicare Tax may apply to you if the total from line 4 (Short Schedule SE) or line 6 (Long Schedule SE) of all your Schedules SE exceeds one of the following threshold amounts (based on your filing status):

- Married filing jointly — \$250,000
- Married filing separately — \$125,000
- Single, Head of household, or Qualifying widow(er) — \$200,000

If you (and your spouse if married filing jointly) have both wages that are subject to FICA and self-employment income subject to the SE tax, the threshold amount for applying the Additional Medicare Tax on the self-employment income is reduced (but not below zero) by the amount of FICA wages subject to Additional Medicare Tax.

Step 10: Payments

Line 64. Federal income tax withheld from Forms W-2 and 1099

Ministers’ wages are exempt from federal income tax withholding. As a result, only those ministers who have entered into a voluntary withholding arrangement with their church will have income taxes withheld and reported on line 64. The church should report the amount of voluntarily withheld taxes on the minister’s Form W-2.

Key Point

Ministers who enter into voluntary withholding arrangements will have federal income taxes withheld from their wages. Under no circumstances should a church withhold the employee’s share of Social Security and Medicare taxes from the wages of such a minister, since ministers are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Ministers can request (on Form W-4) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Form W-2 and 941 forms) rather than the employee’s share of Social Security and Medicare taxes. These ministers must still complete Schedule SE.

Line 65. 2016 estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to tax withholding. As a result, ministers must prepay their income tax and Social Security (self-employment) and Medicare taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The estimated tax procedure is summarized on page 8 of this guide. The total amount of estimated tax payments made to the IRS is reported as a payment of taxes on line 65.

Line 66a. Earned income credit

The maximum earned income credit for 2016 is:

- \$506 with no qualifying child
- \$3,373 with one qualifying child
- \$5,572 with two qualifying children
- \$6,269 with three or more qualifying children

The earned income credit reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the earned income credit do not claim it because it is so difficult to compute. In most cases, the amount of your earned income credit depends on:

1. Whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children
2. The amount of your earned income and modified adjusted gross income

You may be able to claim the earned income credit for 2016 if:

1. You do not have a qualifying child and you earned less than \$14,880 (\$20,430 if married filing jointly).
2. A qualifying child lived with you and you earned less than \$39,296 (\$44,846 if married filing jointly).
3. Two qualifying children lived with you and you earned less than \$44,648 (\$50,198 if married filing jointly).
4. Three or more qualifying children lived with you and you earned less than \$47,955 (\$53,505 if married filing jointly).

You can compute the credit yourself or the IRS will compute it for you. To figure the amount of your earned income credit, you must use the EIC Worksheet and EIC Table in the instructions for Form 1040, lines 66. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

Key Point

The instructions to Form 1040 (lines 66a and 66b) clearly state that a housing allowance, or fair rental value of a rectory, is included in the definition of earned income when computing the earned income credit for ministers who have not exempted themselves from self-employment taxes. Unfortunately, the instructions are less clear for ministers who have exempted themselves from self-employment taxes, but the instructions suggest that these ministers do not include a housing allowance or the fair rental value of a rectory in computing their earned income for purposes of the credit. Ministers who are affected by this issue should consult their own tax advisor for help. The IRS continues to take the position that a minister's housing allowance (fair rental value of a rectory) counts as earned income in determining eligibility for the earned income credit, but only for those ministers who have not opted out of Social Security by filing a timely Form 4361. Ministers who have opted out of Social Security do not treat the housing allowance (or fair rental value of a rectory) as earned income in computing the

earned income credit. This understanding is reflected in the instructions to lines 66a and 66b of Form 1040.

Line 69. Net premium tax credit

You may be eligible to claim the premium tax credit if you, your spouse, or a dependent enrolled in health insurance through the Health Insurance Marketplace. The premium tax credit helps pay for this health insurance. Complete Form 8962 to determine the amount of your premium tax credit, if any. Enter the amount, if any, from Form 8962, line 26. See Publication 974 and the instructions for Form 8962 for more information.

Key Point

The Premium Tax Credit is not available for any month that you had healthcare coverage through any of the Episcopal Church Medical Trust Plans.

Line 70. Amount paid with request for extension to file

See "Preliminary Q&A" section of this booklet, page 3.

Step 11: Refund or amount you owe

After totaling your payments, you can calculate whether you owe the government or a refund is due to you. If you owe a tax, be certain to enclose with your return a check payable to the "United States Treasury." Do not attach the check to your return. Include your daytime phone number, your Social Security number, and write "Form 1040 for 2016" on the check. You also may have to pay an underpayment penalty (refer to line 79 of Form 1040).

If you have overpaid your taxes, you have two options:

1. Request a full refund.
2. Apply the overpayment to your 2017 estimated tax.

Step 12: Sign here

You must sign and date the return at the bottom of page 2.

If you are filing a joint return, your spouse must also sign the return. In the "Your occupation" space, enter your occupation. Episcopal ministers should enter "minister." Please note that the person who signs a tax return does so under penalty of perjury.

Key Point

If retired, enter "retired minister" so that the IRS will know that you still qualify for the housing allowance.

Other Forms and Schedules

Schedule A

Key Point

If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A (Form 1040). This section will summarize the itemized deductions.

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

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 10% of your adjusted gross income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 10% test. Reimbursements

include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter whether the reimbursement is paid to the patient, the doctor, or the hospital.

Key Point

If either you or your spouse were born before January 2, 1951, the medical expense deduction is allowed for expenses exceeding 7.5% of AGI.

The following expenses are deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Meals and lodging provided by a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay
- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- Medicare B premiums you pay
- Medicare D premiums you pay
- Medicare Supplement premiums you pay
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids and batteries, crutches, etc.)
- Transportation for necessary medical care (for 2016, the standard mileage rate for medical travel is 19 cents per mile and is 17 cents per mile in 2017)
- Medicines and drugs requiring a prescription
- The portion of a life-care fee or founder's fee paid either monthly or in a lump-sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care (deduction is limited to the amount that exceeds the amount by which the improvement increases the value of the home)
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

The following items are not deductible as medical expenses:

- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Nonprescription medicines and drugs
- Nursing care for a healthy baby

- Toothpaste, cosmetics, toiletries
- Trips for general improvement of health
- Most cosmetic surgery

Step 2: Taxes you paid (lines 5–9)

Generally, real estate, state and local income, and personal property taxes actually paid during 2016 are deductible. Ministers who own their homes and pay real property taxes can include the full amount of such taxes in computing their housing allowance exclusion. They may also fully deduct the amount of the taxes as an itemized deduction on Schedule A. Federal income tax and gasoline taxes are not deductible for federal income tax purposes.

You can elect to deduct state and local general sales taxes instead of state and local income taxes, as an itemized deduction on Schedule A (Form 1040), line 5. Generally, you can use either your actual expenses or the state and local sales tax tables to figure your sales tax deduction.

Tax Savings Tip

If you lived in more than one state during 2016, multiply the table amount for each state you lived in by the fraction of the year that you lived there.

Step 3: Interest you paid (lines 10–15)

Interest is an amount paid for the use of borrowed money. Interest that you pay for personal reasons (that is, interest on a car loan, credit card, or a personal loan) is not deductible as an itemized deduction on Schedule A. In most cases, you will be able to deduct all of your mortgage interest on any loans secured by your main home, including first and second mortgages, home equity loans, and refinanced mortgages. Whether your home mortgage interest is deductible under these rules depends on the date you took out the mortgage, the amount of the mortgage, and your use of the proceeds. If all of your mortgages fit into one of the following categories, you can deduct all of your interest and report it on Schedule A (Form 1040):

- Mortgages you took out on your main home on or before October 13, 1987
- Mortgages you took out on your main home after October 13, 1987, to buy, build or improve your home, but only if these mortgages (plus any mortgages in the preceding category) total \$1 million or less throughout 2016 (\$500,000 if married filing separately)
- Mortgages you took out after October 13, 1987, on your main home, other than to buy, build, or improve your home; the interest paid is deductible on up to \$100,000 of outstanding mortgages throughout 2016 (\$50,000 if married filing separately)

If you had a main home and a second home, the dollar limits explained in the second and third categories described above apply to the total mortgage on both homes.

Key Point

Ministers who own their homes can deduct mortgage interest payments and mortgage insurance payments as an itemized deduction even though such payments were included in computing the housing allowance exclusion

(the so-called double deduction). However, ministers are subject to the limitations on mortgage loans discussed in this section.

The term “points” is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is only for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

1. Your loan is secured by your primary residence.
2. Paying points is an established business practice in your area.
3. The points you paid were not more than the points generally charged in your area.
4. You use the cash method of accounting.
5. The points were not paid in the place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, attorney fees, and property taxes.
6. You use your loan to buy or build your main home.
7. The points were computed as a percentage of the principal amount of the mortgage.
8. The amount is clearly shown on the settlement statement.
9. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged.

Step 4: Gifts to charity (lines 16–19)

Cash contributions to churches, schools, and most public charities are deductible up to 50% of adjusted gross income. Contributions of property are subject to different limitations. See IRS Publication 526. Contributions of cash or checks are reported on line 16, while contributions of noncash property are reported on line 17. If you do not itemize deductions, you cannot deduct any of your charitable contributions.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile for 2016 and this rate remains unchanged for 2017. Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. There are two ways to do this:

1. Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A.

2. These individuals could provide their church or charity with a travel report substantiating all travel expenses.

In such a case, the church or charity could issue the individual a charitable contribution receipt for the total amount of the substantiated travel expenses. Travel expenses that can be receipted include airfare, lodging, meals, and incidental expenses.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel.

Example

Jack goes on a trip to Europe. He is in Europe for 10 days and conducts one-hour services on two of those days. Jack will not be able to claim a charitable contribution deduction for the travel expenses that he incurs in making this trip. The same rule would apply if Jack's spouse or children go along on the trip.

Charitable contributions must be claimed in the year they are delivered. Note that the delivery date of mailed contributions is determined by the IRS to be the postmark date, not the actual arrival date. A contribution mailed and postmarked on December 31 applies to the year ending rather than to the new year in which it is received.

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

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and public charities are deductible up to a maximum of 50% of adjusted gross income. In some cases, contributions that exceed these limits can be carried over and claimed in future years. Some charitable contributions are limited to 20% or 30% of adjusted gross income, depending on the recipient and the form of the contribution.

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

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and

accounting control over the contributions and ensures that they are spent in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. All individual cash contributions must be substantiated by a canceled check or receipt from the charity. Current rules govern the substantiation of individual contributions of cash or property of \$250 or more. For more information (including substantiation requirements) see IRS Publication 526, "Charitable Contributions."

If you contribute property that you value at \$500 or more, you must include a completed Form 8283 with your Form 1040. Complete only section A if the value claimed is \$500 or more but less than \$5,000. If you claim a deduction of more than \$5,000 for a contribution of non-cash property (other than publicly traded securities), then you must obtain a qualified appraisal of the property and include a qualified appraisal summary (section B of Form 8283) with your Form 1040. Special rules apply to donations of cars, boats, and planes. See the instructions to IRS Form 1098-C for details.

Key Point

Paperwork is important! In one case, the Tax Court disallowed one donor's non-cash charitable contribution deduction, not because of any dispute over the value of a \$10,000 property the donor had contributed to a church, but because the donor failed to attach a qualified appraisal summary (Non-cash Charitable Contributions, Form 8283) to the tax return on which his contribution was claimed.

Step 5: Casualty and theft losses (line 20)

Most taxpayers have at some time suffered damage to their property as a result of hurricanes, earthquakes, tornadoes, fires, vandalism, car accidents, floods, or similar events. When property is damaged or destroyed by such events, it is called a casualty. If your property is stolen, you may also have a deductible theft loss. You must itemize your deductions on Schedule A to be able to claim a casualty or theft loss to nonbusiness property.

To determine your deduction, you must reduce the amount of your casualty and theft losses by any insurance or reimbursement you receive. No deduction is allowed for a casualty or theft loss that is covered by insurance unless a timely insurance claim for reimbursement has been filed.

You can deduct personal casualty or theft losses only to the extent that:

1. The amount of each separate casualty or theft loss is more than \$100, and
2. The total amount of all losses during the year (reduced by the \$100 limit) is more than 10% of the amount on Form 1040, line 38.

The 10% of AGI limitation does not apply to a casualty loss that occurred in an area determined by the President of the United States to warrant federal disaster assistance. For information on disaster losses, see IRS Publication 547.

To claim a casualty or theft loss, you must be able to show that the loss in fact occurred. In addition, the loss generally is defined as the lesser of:

1. The decrease in fair-market value of the property as a result of the casualty or theft, or
2. Your adjusted basis in the property before the casualty or theft

Calculate non-business casualty and theft losses on Form 4684, and report them on Schedule A as an itemized deduction.

Step 6: Job expenses and most other miscellaneous deductions (lines 21–27)

You may deduct certain miscellaneous expenses on Schedule A. These deductions are in addition to the itemized deductions for medical expenses, taxes, interest, charitable contributions, and casualty and theft losses. Most miscellaneous itemized expenses are deductible only to the extent that they exceed 2% of adjusted gross income.

Miscellaneous expenses subject to the 2% floor include:

- Unreimbursed and non-accountable reimbursed employee business expenses (discussed more fully below)
- Professional society dues
- Safety deposit box rental
- Employee educational expenses
- Tax counsel and assistance
- Work-related home expenses
- Related supplies
- Expenses of looking for a new job
- Investment counsel fees
- Professional books and periodicals
- Investment expenses
- 50% of unreimbursed business meals and entertainment
- IRA custodial fees

Certain miscellaneous expenses are not subject to the 2% floor. However, these expenses ordinarily are not available to ministers.

Step 7: Employee business expenses

Key Point

The limitations on the deductibility of unreimbursed and non-accountable reimbursed employee business expenses can be avoided if the church adopts an accountable reimbursement arrangement. Reimbursements paid by the church under an accountable arrangement are not reported as income to the minister, and the minister need not claim any

deductions. In general, the rules for deductions are also the rules for accountable reimbursements.

The more common examples of ministerial business expenses are summarized below.

Local transportation expenses

Expenses incurred in driving your car or using mass transit for business purposes within your community represent one of the most important business expenses for ministers. A common example would be driving your car from your church to a hospital to visit members. Commuting to and from work is never a business expense. However, if you drive to a hospital (or some other business location) on the way home from church, the expenses incurred in driving from the church to the second business location are business expenses even though you are on the way home. The remaining miles between the second business location and your home are non-deductible commuting expenses.

These expenses can be deducted using either a standard mileage rate or the actual costs of operating the car for business miles. Most ministers choose the standard mileage rate because of its simplicity. However, it is available only if it is selected for the first year a car is used in your trade or business. The actual expense method is very complex and is explained fully in IRS Publication 463.

The standard business mileage rate for 2016 was 54 cents per mile.

Key Point

The standard business mileage rate for 2017 is 53.5 cents per mile.

Travel expenses

Travel expenses are the expenses that you incur while traveling away from home overnight for your work or business. A common example would be automobile, lodging, and meal expenses you incur in traveling to a convention or meeting. You can deduct these expenses if you can substantiate them, as explained below.

Deductible travel expenses include:

- Air, rail, and bus fares
- Operating and maintaining your car
- Taxi fares or other costs of transportation between the airport or station and your hotel, or from one work site to another
- Meals and lodging while you are away from home on business for less than one year for a short-term position, such as an interim
- Cleaning and laundry expenses
- Telephone and internet expenses
- Tips

The travel expenses of a spouse who accompanies a minister on a business trip are almost never deductible as a business expense, and cannot be reimbursed under an accountable arrangement. In rare cases, an employer's reimbursement of the travel expenses of an employee's spouse may qualify

as a non-taxable working condition fringe benefit so long as these conditions are met:

1. The employer has not treated such amounts as compensation.
2. The amounts would be deductible as a business expense without regard to the limitation on the deductibility of a spouse's travel expenses, meaning that the spouse's presence on the trip is for a legitimate business purpose.
3. The employee substantiates the expenses under an accountable arrangement. This is a highly aggressive position that should not be adopted without the advice of a tax professional.

One way for the unreimbursed travel expenses of a non-employee spouse to be deductible would be if the spouse performed substantial church-related activities during the trip. Under these circumstances, the spouse's unreimbursed travel expenses may qualify for a charitable contribution deduction.

Entertainment expenses

You may be able to deduct entertainment expenses you incur during your ministry. You may take the deduction only if you can demonstrate that the amounts spent are either:

1. Directly related to the active conduct of your ministry, or
2. Associated with the active conduct of your ministry, and the entertainment occurred directly before or after a substantial business discussion

These two tests are summarized below:

Directly related test

To show that entertainment was directly related to the active conduct of your business, you ordinarily must be able to demonstrate that:

1. You had more than a general expectation of deriving income or some other specific business benefit at some indefinite future time.
2. You did engage in business during the entertainment period.
3. The main purpose of the entertainment was the transaction of business.

Associated entertainment test

To show that entertainment was associated with the active conduct of your ministry, you must be able to demonstrate that:

1. You had a clear business purpose in incurring the expense.
2. The meal or entertainment directly preceded or followed a substantial business discussion.

Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation.

This covers entertaining guests at restaurants, social or athletic facilities, sporting events or on hunting, fishing, vacation, or similar trips. Expenses are not deductible

when business acquaintances take turns picking up each other's entertainment checks without regard to whether any business purposes are served. Ministers incur entertainment expenses in a variety of situations. Common examples include entertaining denominational leaders, guest speakers, church groups (youth, choir, vestry, etc.), or meeting with members at a restaurant for counseling purposes.

Key Point

You may deduct only 50% of your business-related entertainment expenses, including meals. This rule does not apply to expenses you incur that are reimbursed by your employer under an accountable reimbursement arrangement.

Entertainment expenses incurred in your home are especially scrutinized by the IRS. You must be able to demonstrate that your expenses were not purely social but rather had a primary business purpose.

Entertainment expenses of spouses may also be deductible if their presence serves a legitimate business purpose or if it would be impractical under the circumstances to entertain the business associate without including his or her spouse. If a spouse's entertainment expenses are deductible because it is impractical to entertain his or her spouse without the spouse being included, your spouse's entertainment expenses incurred on the same occasion will also be deductible. For example, your spouse joins you because your business associate's spouse will be present.

The IRS frequently challenges entertainment expenses, so you should be prepared to substantiate such expenses fully as described below.

Example

Scott invites the members of the vestry to his home for dinner and a meeting. The expenses incurred by Scott and his guests for food and beverages ordinarily will constitute entertainment expenses.

Example

Scott invites a friend and fellow minister to his home for dinner. The friend resides in another state and is visiting Scott for the day. Ordinarily, such a visit will be a social visit and the expenses associated with it will not be deductible.

Example

Kitty is the head of staff of her church. She takes a prospect for a ministerial staff position out to dinner, during which they discuss the person's background and suitability for the position. The person's spouse comes along because it would be impractical to discuss the position solely with the prospect. Further, Kitty's spouse accompanies her because the other spouse is present. Kitty pays everyone's meal expense. The cost of the meals of all four people is an entertainment expense.

Educational expenses

Certain educational expenses are deductible by ministers. You may deduct expenses you have for education, such

as tuition, books, supplies, correspondence courses, and certain travel and transportation expenses, even though the education may lead to a degree, if the education satisfies one or both of the following conditions:

1. The education is required by your employer, or by law or regulation, to keep your salary, status, or job.
2. The education maintains or improves skills required in your present work.

However, you may not deduct expenses incurred for education, even if one or both of the requirements mentioned above are met, if the education is required to meet the minimum educational requirements to qualify you in your trade or business or is part of a program of study that will lead to qualifying you in a new trade or business, even if you did not intend to enter that trade or business.

Example

The minister at St. Michael's Church takes a counseling course at a local university. Expenses associated with the course are deductible educational expenses if the course maintains or improves job skills and is not a part of a program of study that will qualify the minister for a new trade or business.

Subscriptions and books

Ministers often purchase books and subscribe to journals and other periodicals that are directly relevant to the performance of their professional duties. The income tax regulations specify that "a professional man may claim as deductions the cost of ... subscriptions to professional journals [and] amounts currently paid for books ... the useful life of which is short."

The cost of a subscription will be deductible as a business expense if it is related to the conduct of a minister's trade or business. Professional clergy journals and specialized clergy periodicals clearly satisfy this test. News magazines may also qualify if a minister can demonstrate that the information contained in such periodicals is related to his or her ministry (e.g., sources of illustrations for sermons). The cost of a general circulation daily newspaper is not deductible.

The unreimbursed cost of books that are related to one's ministry is a business expense. The same is true for the cost of books reimbursed by the church under a non-accountable arrangement. Deduct the cost of any book that you acquired for use in your ministry and that has a useful life (not the same as its physical life) of less than one year. For example, the cost of a book that you purchase and read, but have no intention of using again, can be deducted in full in the year of purchase.

The unreimbursed cost of commentaries or theological dictionaries and encyclopedias that are acquired for extended reference use also may be deducted fully in the year of purchase. Alternatively, ministers can allocate the purchase price of reference books to their useful life by means of annual depreciation deductions. The depreciation deduction is computed using the Modified Accelerated Cost

Recovery System (MACRS) method. See IRS Publication 946 for details.

Personal computers

Church employees who purchase a computer that is used for business as well as personal use may be entitled to deduct the cost of the computer in the year of purchase or claim an annual depreciation deduction over the useful life of the computer. However, note that personal computers are "listed property" and, as a result, are subject to strict substantiation requirements regarding business use. Here are the rules that apply:

You can claim a deduction for the entire purchase price in the year of purchase (you do not need to depreciate the computer). The price must be reduced by the percentage of use that is personal as opposed to business related. This is the option used by most ministers because of its simplicity.

Alternatively, you can claim a depreciation deduction for the cost of a computer that you use in your work as an employee if its use is:

- For the convenience of your employer
- Required as a condition of your employment

For the convenience of your employer means that you can clearly demonstrate that you cannot perform your job without the home computer. The fact that the computer enables you to perform your work more easily and efficiently is not enough. Further, you must prove that the computers available at your place of employment are insufficient to enable you to properly perform your job. Obviously, this is a difficult test to satisfy.

Required as a condition of your employment means that you must not be able to properly perform your duties without the computer. It is not necessary that your employer explicitly requires you to use the computer. On the other hand, it is not enough that your employer merely states that your use of the home computer is a condition of your employment. If you are an employee and these tests are not met, you cannot deduct any of the cost of your home computer.

If you are an employee and you meet both tests described above, you can claim a business deduction if you use your home computer more than 50% of the time during the year in your work.

Example

You occasionally take work home at night rather than work late at the office. You own and use a computer that is similar to the one you use at the office to complete your work at home. Since your use of the computer is not for the convenience of your employer and is not required as a condition of your employment, you cannot claim a depreciation deduction for it.

The depreciation method you use depends on whether you meet the more-than-50%-use test. You meet this test if you use the computer more than 50% in your work. If you meet this test, you may be able to take the Section 179 deduction for the year you place the item in service. This means that

you can deduct in the year of purchase the portion of the purchase price that corresponds to the percentage of business use. If you do not meet the more-than-50%-use test, you are limited to the straight line method of depreciation and you cannot claim the Section 179 deduction for the cost of the computer in the year of purchase. The more-than-50%-use test does not apply to a computer used only in a part of your home that meets the requirements of a home office. You may be able to take a Section 179 deduction for the year you place the computer in service.

Your use of a computer in connection with investments does not count as use in your work. However, you can combine your investment use with your work use in figuring your depreciation deduction.

For more information on depreciation and the Section 179 deduction for computers and other items used in a home office, see Publication 946.

You must keep records to prove your percentage of business and investment use.

Cell phones

The cost of employer-provided cell phones no longer needs to be reported on the Form W-2 as income as long as the personal use is minimal.

Office in the home

The IRS audit guidelines for ministers instruct IRS agents to take the position that a minister who excludes all of his or her housing expenses as a housing allowance exclusion has, in effect, already deducted all of the expenses associated with an office in the home and should not be able to claim any additional deduction of these expenses as an itemized (home office) deduction on Schedule A.

How to report employee business expenses

This section addresses the tax treatment of business expenses for ministers who report their income taxes as employees. The tax treatment of business expenses for ministers with self-employment income is discussed below (under the section on Schedule C).

The business expenses of ministers who are employees for federal income tax reporting purposes should be handled in the following way:

Accountable reimbursement arrangement

The best way for ministers to handle business expenses is to have their employing church adopt an accountable business expense reimbursement arrangement. Under such an arrangement:

1. A church agrees to reimburse ministers (and other church workers, if desired) for those business expenses that are properly substantiated as to date, amount, place, and business purpose.
2. Ministers are required to return any excess reimbursements (in excess of substantiated expenses) to the church.

Reimbursements of business expenses under such an arrangement are not reported as taxable income on the minister's Form W-2 or Form 1040, and there are no deductions to claim. In effect, the minister is reporting to the church rather than to the IRS.

An accountable business expense reimbursement arrangement should be established by the church in an appropriate resolution. In adopting a resolution, pay special attention to the following rules:

1. Condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all expenses and receipts for expenses of \$75 or more. The evidence must substantiate the amount, date, place, and business nature of each expense. The key point is this: A church must require the same degree of substantiation as would be required for a deduction on the minister's income tax return.
2. Expenses must be substantiated, and excess reimbursements returned to the church, within a reasonable time. Expenses will be deemed substantiated within a reasonable period of time if they are substantiated within 60 days. Excess reimbursements will be deemed to be returned to the employer within a reasonable period of time if they are returned within 120 days.
3. Business expense reimbursements cannot be funded under an accountable plan out of a minister's own salary (for example, through salary reductions).

Example

Randolph is rector of Church of the Redeemer. He reports his federal income taxes as an employee, and the church reimburses him for all of his business and professional expenses (by means of a credit card or cash reimbursements). However, Randolph is not required to account for such expenses by providing the church treasurer with receipts documenting the amount, time and place, business purpose, and business relationship of each expense. Randolph simply informs the treasurer at the end of each month of the total expenses incurred during that month. Assume further that Randolph cannot itemize deductions on Schedule A (he does not have sufficient deductions). If Randolph received reimbursements of \$4,000 in 2016, the following would apply:

1. The church would report the entire reimbursements (\$4,000) as income on Randolph's W-2, and Randolph would report them as income (salary) on his Form 1040.
2. Randolph cannot deduct the reimbursed expenses as a miscellaneous itemized deduction on Schedule A, since he does not have sufficient expenses to itemize. In other words, all of Randolph's business expense reimbursements are includable in his income for tax purposes, but he cannot offset any of this income by deducting any portion of his business expenses.

Even if Randolph could itemize deductions, his non-accountable reimbursed expenses would be treated just like unreimbursed expenses, which are deductible only as miscellaneous itemized deductions, and then only to the extent that they (along with most other miscellaneous expenses) exceed 2% of his adjusted gross income.

3. Clearly, the tax impact of these rules can be costly for ministers who do not account to their employing church for their business expenses. Further, if the church and Randolph neglect to report the reimbursements as taxable income, the reimbursements become an "automatic excess benefit" triggering intermediate sanctions against both Randolph (assuming he is an officer or director, or the relative of one) of up to 225% of the excess benefit (\$9,000), and the vestry, up to a maximum penalty of \$20,000.

Example

Same facts as the previous example, except that the church adopts an accountable reimbursement arrangement, and Randolph is reimbursed for \$4,000 of substantiated expenses. Under these facts, the church would not report the \$4,000 of reimbursements as income on Randolph's Form W-2, and Randolph would not have to report the reimbursements or claim the expenses on his Form 1040.

Churches occasionally reimburse ministers for non-business expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the minister's wages for income tax reporting purposes, and they are not deductible by the minister. Such personal, living, or family expenses are not deductible, and the entire amount of a church's reimbursement must be included on the minister's Form W-2 and Form 1040.

Business expenses must be substantiated by adequate evidence to support an income tax deduction or an expense reimbursement under an accountable reimbursement arrangement of an employer. Stricter substantiation rules apply to transportation, travel, and entertainment expenses.

Deason Rule

Unreimbursed business expenses must be split between the deductible part allocated to taxable income, and the non-deductible part allocated to the housing exclusion. Both parts are deductible in calculating the self-employment tax. This reinforces the desirability of being reimbursed for your expenses, rather than taking them as deductions.

Schedule B

Schedule B is used to report taxable interest income and dividend income of more than \$1,500.

Step 1: Interest income (lines 1–4)

List (on line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2016. Be sure the interest you report

on line 1 corresponds to any 1099-INT forms you received from such institutions. Do not include tax-exempt interest.

Step 2: Dividend income (lines 5–6)

List (on line 5) the name of each institution that paid you dividends if you received more than \$1,500 in dividends in 2016. Be sure the dividends you report on line 1 correspond to any 1099-DIV forms you received from such institutions.

Step 3: Foreign accounts and foreign trusts

Be sure to complete this part of the schedule if you had more than \$1,500 of either taxable interest or dividends.

Schedules C and C-EZ

Ministers may want to use Schedule C instead of Schedule C-EZ, because their expenses will exceed the \$5,000 maximum allowed on Schedule C-EZ.

Key Point

Most Episcopal ministers who serve local churches or church agencies are employees for federal income tax purposes, with respect to their church salary. They report their church salary on line 7 of Form 1040 and receive a Form W-2 from the church. They do not report their salary as self-employment earnings on Schedule C-EZ.

Key Point

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

Step 1: Introduction

Complete the first several questions on Schedule C. Ministers should list the code 541990 on line B. This is the code used for ministers and chaplains in the clergy tax illustrations found in IRS Publication 517. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those ministers who are self-employed, including supply clergy.

Step 2: Income

Report on line 1 your gross income from your self-employment activity.

Step 3: Expenses

Report any business expenses associated with your self-employment earnings on Form 1040, Schedule C-EZ, line 2. For example, if you incur transportation, travel, or entertainment expenses in the course of performing self-employment activities, you deduct these expenses here.

Schedule SE

Key Point

Use Schedule SE to report Social Security and Medicare taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (Form 4361). Remember, ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial services. They pay self-employment taxes, and never FICA taxes, with respect to such services.

Key Point

You must report the fair rental value of your rectory, or your cash housing allowance received in the absence of a rectory, when reporting your self-employment income. To do so, you should prepare a supplemental schedule for the Schedule SE, which lists your W-2 compensation, your Schedule C or C-EZ compensation, and your housing. The total of this compensation is then reported on line 2 of the 1040-SE.

Key Point

All earned income received by retirees is subject to self-employment tax.

Step 1: Section A (line 2)

Use Schedule A, page 1, not Schedule B on page 2. This amount is computed as follows:

1. Add the following to the church salary:
 - Other items of church income (including taxable fringe benefits)
 - Self-employment earnings
 - Fair rental value of house or non-taxable portion of housing allowance
 - Business expense reimbursements made under a non-accountable plan
2. Next, subtract the following from the above total:
 - Unreimbursed business expenses (disregard the Deason reduction rule)
 - Business expenses reimbursed under a non-accountable plan (disregard the Deason reduction rule)
 - Most income tax exclusions other than the housing allowance, the fair rental value of a rectory, and the foreign earned income exclusion

Attach a schedule to the Form 1040-SE, summarizing the above items.

Step 2: Section A (line 4)

Ministers (and other taxpayers who are considered self-employed for Social Security and Medicare tax purposes) can reduce their taxable earnings by 7.65%, which is half the Social Security and Medicare tax paid by employers

and employees. To do this, multiply net earnings from self-employment times 0.9235 on line 4. Self-employment taxes are paid on the reduced amount.

Step 3: Section A (line 5)

The self-employment tax for 2016 is computed on this line. It consists of these two components:

1. A Medicare hospital insurance tax of 2.9%
2. An old-age, survivor, and disability (Social Security) tax of 12.4%

For 2016, the 2.9% Medicare tax applies to all net earnings from self-employment regardless of amount. The 12.4% Social Security component of the self-employment tax applies only to the first \$118,500 of net self-employment earnings in 2016.

! Key Point

If you live in a rectory, be sure to include the fair rental value of the rectory when calculating your compensation for the SE tax.

Special Note:

The tax form examples (beginning on page 35) will illustrate — to you and also your tax preparer — some “average” tax scenarios for both active and retired clergy. These examples address federal tax code provisions only. No attempt has been made to address the tax code requirements of states or other localities. The complexities of local taxes far exceed the scope of this publication, and represent yet another reason why you should consult a tax professional.

Comprehensive Examples and Forms

Example 1: A Retired Minister — Married

The Reverend William K. Green is a retired priest. He is 71 years old. He is married to Sarah J. Green, who is 68 years old and retired from her career as a school teacher. Father Green receives \$31,000 in pension income, all of which is designated in advance by The Church Pension Fund as a housing allowance. Father Green asked The Church Pension Fund to withhold \$100 a month (\$1,200 a year) of his pension for his estimated federal taxes for 2016. Father Green had \$23,000 of housing expenses for 2016, of which \$2,800 was real estate taxes. Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they are used to pay for housing-related expenses that do not exceed the fair rental value of the home, furnished, plus utilities. The fair rental value of Father Green's home, furnished, plus utilities was \$25,000. As a result, only \$8,000 of his pension is subject to income taxation. His wife also has a small pension of \$9,000 a year. Their combined taxable pension amount will be \$17,000.

Note: Pensions are not earned income (wages) and therefore are not subject to self-employment tax.

Father Green needs to take his required minimum distribution (RMD) from his Individual Retirement account (IRA) with the Church Life Insurance Corporation. With an account balance of \$150,000 as of December 31, 2015, and dividing by the IRS uniform life expectancy table, Church Life calculated that Father Green needed to take \$5,660 to comply, and he took that distribution quarterly during the year. His wife, who transferred her IRA to Church Life during 2015, took an additional \$3,000 from her account during the year. These distributions are fully taxable and should be reported on lines 15a and 15b.

Father Green received \$3,000 from occasional guest preaching engagements. He incurred \$1,425 in expenses as a result of these activities (\$1,250 in travel expenses and \$350 for meals). Only 50% of the meal expense is deductible. Note: The net income of \$1,575 from Fr. Green's preaching engagements represents earned income and, unlike his pension, is therefore subject to self-employment tax.

The Greens each paid \$115 per month for the Medical Trust's Medicare Supplement Plus Plan and \$65 per month each for the Basic Dental Plan, a yearly total of \$4,320. Since Father Green had self-employment income, he can deduct a portion of the medical premiums he paid on line 29 of his 1040. The amount deductible is limited to his self-employment income on line 12 (\$1,575) less the deductible portion of his SE Tax on line 27 (\$112), for a total of \$1,463 (\$1,575 – \$112).

Father Green received \$18,000 in Social Security benefit payments in 2016, and his wife Sarah received \$10,000 in her benefit payments for 2016. The Greens had to calculate how much of their Social Security benefits may be subject to tax by using the worksheet on page 29 of the Form 1040 instructions. See the sample worksheet following their tax examples.

Note that, although the worksheet is used to calculate lines 20a and 20b on Form 1040, the worksheet itself is not filed with the IRS.

The Greens also had \$225 of taxable interest from their bank accounts in 2016.

Father Green and Mrs. Green, because they are both over age 65, take advantage of the increased Standard Deduction for 2016 of \$15,100 instead of itemizing their deductions in 2016.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning

2016, ending

,20

See separate instructions.

Your first name and initial

William K

Last name

Green

If a joint return, spouse's first name and initial

Sarah J

Last name

Green

Your social security number

401-40-4001

Spouse's social security number

401-40-4002

Home address (number and street).

123 Main Street

Apt. no.

▲ Make sure the SSN(s) above
and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

AnyTown

NY

10012

Foreign country name

Foreign province/state/county

Foreign postal code

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.

 You Spouse

Filing Status

1

Single

4

 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.

2

 Married filing jointly (even if only one had income)

3

Married filing separately. Enter spouse's SSN above

5

 Qualifying widow(er) with dependent child

Check only one box.

and full name here. ►

Boxes checked on 6a and 6b

2

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see instructions)

Dependents on 6c not entered above

Add numbers on lines above ►

2

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a } 2b Spouse }

c Dependents:

(1) First name

Last name

(2) Dependent's social security number

(3) Dependent's relationship to you

(4) Chk if child under age 17 qualifying for child tax credit (see instructions)

If more than four dependents, see instructions and check here ►

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7

8a Taxable interest. Attach Schedule B if required 8a 225

b Tax-exempt interest. Do not include on line 8a 8b

9a Ordinary dividends. Attach Schedule B if required 9a

b Qualified dividends 9b

10 Taxable refunds, credits, or offsets of state and local income taxes 10

11 Alimony received 11

12 Business income or (loss). Attach Schedule C or C-EZ 12 1,575

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ► 13

14 Other gains or (losses). Attach Form 4797 14

15a IRA distributions 15a 15b 8,660

16a Pensions and annuities 16a 40,000 16b 17,000

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17

18 Farm income or (loss). Attach Schedule F 18

19 Unemployment compensation 19

20a Social security benefits 20a 28,000 20b 3,943

21 Other income 21

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22 31,403

Adjusted Gross Income

23 Educator expenses 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24

25 Health savings account deduction. Attach Form 8889 25

26 Moving expenses. Attach Form 3903 26

27 Deductible part of self-employment tax. Attach Schedule SE 27 112

28 Self-employed SEP, SIMPLE, and qualified plans 28

29 Self-employed health insurance deduction 29 1,463

30 Penalty on early withdrawal of savings 30

31a Alimony paid b Recipient's SSN► 31a

32 IRA deduction 32

33 Student loan interest deduction 33

34 Tuition and fees. Attach Form 8917 34

35 Domestic production activities deduction. Attach Form 8903 35

36 Add lines 23 through 35 36 1,575

37 Subtract line 36 from line 22. This is your adjusted gross income 37 29,828

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

EEA

Form 1040 (2016)

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	29,828
39a	Check <input checked="" type="checkbox"/> You were born before January 2, 1951, if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1951.	Blind. <input type="checkbox"/> Total boxes Blind. <input type="checkbox"/> checked ► 39a 2	
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ► 39b <input type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	15,100
41	Subtract line 40 from line 38	41	14,728
42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42	8,000
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	6,728
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	673
45	Alternative minimum tax (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46	47	673
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credit. Attach Form 5695	53	
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55	Add lines 48 through 54. These are your total credits	55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	673
57	Self-employment tax. Attach Schedule SE	57	223
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	
62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your total tax	63	896

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	1,200
65	2015 estimated tax payments and amount applied from 2014 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election	66b	
67	Additional child tax credit. Attach Schedule 8812	67	
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	1,200

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	304
76a	Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ► <input type="checkbox"/>	76a	304

Direct deposit? See instructions.

► b Routing number c Type: Checking Savings

► d Account number

77 Amount of line 75 you want applied to your 2016 estimated tax ► 77

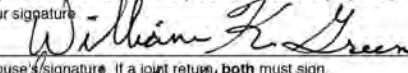
Amount You Owe

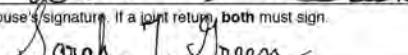
78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	
79	Estimated tax penalty (see instructions)	79	

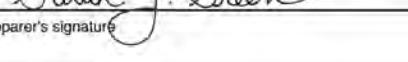
Third Party Designee

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

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  Date 3-10-17 Your occupation Retired clergy Daytime phone number

Spouse's signature: If a joint return, both must sign.  Date 3-10-17 Spouse's occupation Retired school teacher Identity Protection PIN (see inst.)

Preparer's signature  Date Check if self-employed PTIN

Print/Type preparer's name
Firm's name ► Firm's EIN ►

Firm's address ► Phone no.

**SCHEDULE C-EZ
(Form 1040)****Net Profit From Business**

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

(Sole Proprietorship)

2016

Name of proprietor

William K Green

Attachment
Sequence No. 09ASocial security number (SSN)
401-40-4001**Part I General Information**

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

- Had business expenses of \$5,000 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 either a sole proprietor, qualified joint venture, or statutory employee,

And You:

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

A Principal business or profession, including product or service**Clergy****B Enter business code (see page 2)****► 541990****C Business name. If no separate business name, leave blank.****D Enter your EIN (see page 2)****E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.****123 Main Street**

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

AnyTown, NY 10012**F Did you make any payments in 2016 that would require you to file Form(s) 1099? (see the instructions for Schedule C)** Yes No**G If "Yes," did you or will you file required Forms 1099?** Yes No**Part II Figure Your Net Profit**

1 Gross receipts. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory employees</i> in the instructions for Schedule C, line 1, and check here	<input type="checkbox"/>	1	3,000
2 Total expenses (see instructions). If more than \$5,000, you must use Schedule C		2	1,425
3 Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13, and Schedule SE, line 2 (see instructions). (Statutory employees do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3		3	1,575

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) ►****5 Of the total number of miles you drove your vehicle during 2016, enter the number of miles you used your vehicle for:****a Business** **b Commuting (see instructions)** **c Other****6 Was your vehicle available for personal use during off-duty hours?** Yes No**7 Do you (or your spouse) have another vehicle available for personal use?** 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 the separate instructions for Schedule C (Form 1040).

Schedule C-EZ (Form 1040) 2016

EEA

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

OMB No. 1545-0074

2016

Attachment
Sequence No. 17

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

William K Green

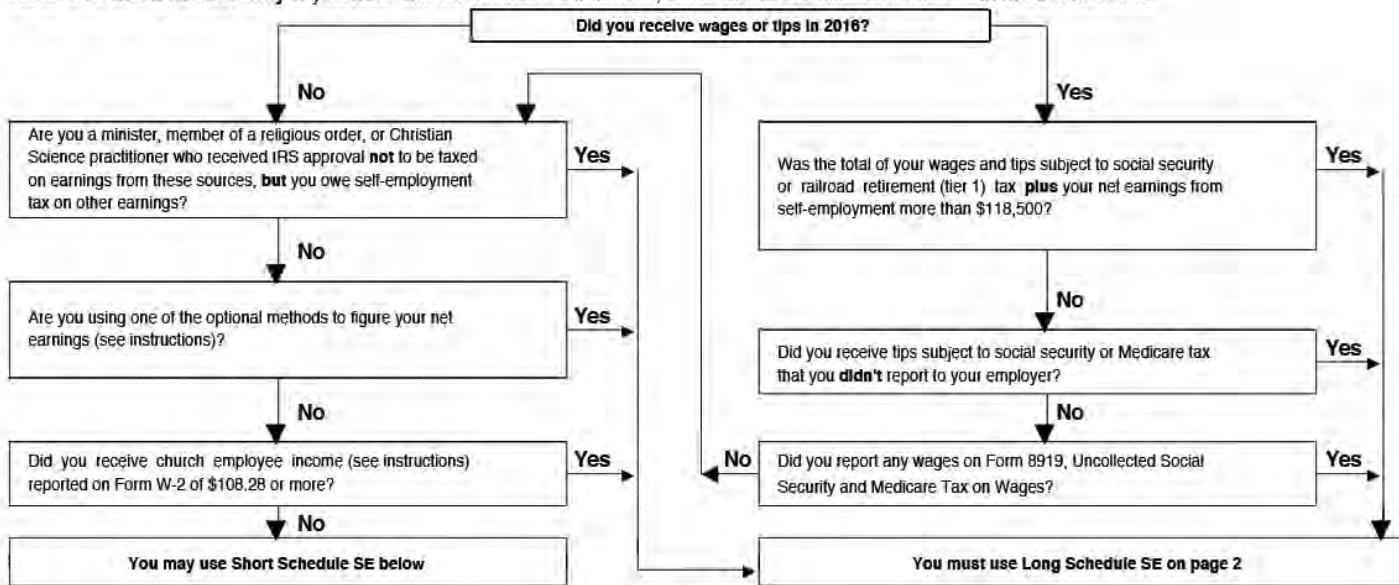
Social security number of person
with self-employment income ►

401-40-4001

Before you begin: To determine if you must file Schedule SE, see the instructions.

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

Note. Use this flowchart only if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



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

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b (
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2 1,575
3	Combine lines 1a, 1b, and 2	3 1,575
4	Multiply line 3 by 92.35% (0.9235). If less than \$400, you do not owe self-employment tax; don't file this schedule unless you have an amount on line 1b Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4 1,455
5	Self-employment tax. If the amount on line 4 is: • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5 223
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6 112

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

EEA

Schedule SE (Form 1040) 2016

**Worksheet 1
Forms 1040, 1040A**

**Social Security Benefits Worksheet
Figuring Your Taxable Benefits**

(Keep for your records)

2016

Tax ID Number

401-40-4001

Name(s) as shown on return

William K & Sarah J Green

Before you begin:

- If you are married filing separately and you lived apart from your spouse for all of 2016, enter "D" to the right of the word "benefits" on Form 1040, line 20a, or Form 1040A, line 14a.
- Do not use this worksheet if you repaid benefits in 2016 and your total repayments (box 4 of Forms SSA-1099 and RRB-1099) were more than your gross benefits for 2016 (box 3 of Forms SSA-1099 and RRB-1099). None of your benefits are taxable for 2016. For more information, see Repayments More Than Gross Benefits.
- If you are filing Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989, do not include the amount from line 8a of Form 1040 or Form 1040A on line 3 of this worksheet. Instead, include the amount from Schedule B (Form 1040A or 1040), line 2.

This worksheet
is for your use
and your records
only. Do NOT file
it with the IRS.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099.
Also enter this amount on Form 1040, line 20a, or Form 1040A, line 14a 1. 28,000
2. Enter one-half of line 1 2. 14,000
3. Combine the amounts from:
Form 1040: Lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21
Form 1040A: Lines 7, 8a, 9a, 10, 11b, 12b, and 13 3. 27,460
4. Enter the amount, if any, from Form 1040 or 1040A, line 8b 4. _____
5. Enter the total of any exclusions/adjustments for:
 - Adoption benefits (Form 8839, line 28),
 - Foreign earned income or housing (Form 2555, lines 45 and 50, or Form 2555-EZ, line 18), and
 - Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico 5. _____
6. Combine lines 2, 3, 4, and 5 6. 41,460
7. **Form 1040 filers:** Enter the amounts from Form 1040, lines 23 through 32, and any write-in adjustments you entered on the dotted line next to line 36.
Form 1040A filers: Enter the amounts from Form 1040A, lines 16 and 17 7. 1,575
8. Is the amount on line 7 less than the amount on line 6?
No. **STOP** None of your social security benefits are taxable. Enter -0- on Form 1040, line 20b, or Form 1040A, line 14b.
X Yes. Subtract line 7 from line 6 8. 39,885
9. If you are:
 - Married filing jointly, enter \$32,000
 - Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2016, enter \$25,000 9. 32,000**Note:** If you are married filing separately and you lived with your spouse at any time in 2016, skip lines 9 through 16; multiply line 8 by 85% (.85) and enter the result on line 17. Then go to line 18.
10. Is the amount on line 9 less than the amount on line 8?
No. **STOP** None of your benefits are taxable. Enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b. If you are married filing separately and you **lived apart** from your spouse for all of 2016, be sure you entered "D" to the right of the word "benefits" on Form 1040, line 20a, or on Form 1040A, line 14a.
X Yes. Subtract line 9 from line 8 10. 7,885
11. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2016 11. 12,000
12. Subtract line 11 from line 10. If zero or less, enter -0- 12. _____
13. Enter the **smaller** of line 10 or line 11 13. 7,885
14. Enter one-half of line 13 14. 3,943
15. Enter the **smaller** of line 2 or line 14 15. 3,943
16. Multiply line 12 by 85% (.85). If line 12 is zero, enter -0- 16. _____
17. Add lines 15 and 16 17. 3,943
18. Multiply line 1 by 85% (.85) 18. 23,800
19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040, line 20b, or Form 1040A, line 14b 19. 3,943

TIP

If you received a lump-sum payment in 2016 that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see if you can report a lower taxable benefit.

**Self-Employed Health Insurance
Deduction Worksheet - 1040, Line 29**

(Keep for your records)

Form 1040, line 29

Name(s) as shown on return

William K Green

2016

Tax ID Number

401-40-4001

1. Enter the total amount paid in 2016 for health insurance coverage established under your business (or the S corporation in which you were a more-than-2% shareholder) for 2016 for you, your spouse, and your dependents. Your insurance can also cover your child who was under age 27 at the end of 2016, even if the child was not your dependent. But **do not** include the following.
 - Amounts for any month you were eligible to participate in a health plan subsidized by your or your spouse's employer or the employer of either your dependent or your child who was under the age of 27 at the end of 2016.
 - Any amounts paid from retirement plan distributions that were nontaxable because you are a retired public safety officer.
 - Any qualified health insurance coverage payments that you included on Form 8885, line 4, to claim the HCTC.
 - Any advance monthly payments of the HCTC that your health plan administrator received from the IRS, as shown on Form 1099-H, Health Coverage Tax Credit (HCTC) Advance Payments.
 - Any qualified health insurance coverage payments you paid for eligible coverage months for which you received the benefit of the HCTC monthly advance payment program.
 - Any payments for qualified long-term care insurance (see line 2) 1. **4,320**
2. For coverage under a qualified long-term care insurance contract, enter for each person covered the **smaller** of the following amounts.
 - a) Total payments made for that person during the year.
 - b) The amount shown below. Use the person's age at the end of the tax year.

\$390 - if that person is age 40 or younger
\$730 - if age 41 to 50
\$1,460 - if age 51 to 60
\$3,900 - if age 61 to 70
\$4,870 - if age 71 or older

Do not include payments for any month you were eligible to participate in a long-term care insurance plan subsidized by your or your spouse's employer or the employer of either your dependent or your child who was under the age of 27 at the end of 2016. If more than one person is covered, figure separately the amount to enter for each person. Then enter the total of those amounts 2. **4,320**
3. Add lines 1 and 2 3. **4,320**
4. Enter your net profit* and any other earned income** from the trade or business under which the insurance plan is established. Do not include Conservation Reserve Program payments exempt from self-employment tax. If the business is an S corporation, skip to line 11 4. **1,575**
5. Enter the total of all net profits* from: Schedule C (Form 1040), line 31; Schedule C-EZ (Form 1040), line 3; Schedule F (Form 1040), line 34; or Schedule K-1 (Form 1065), box 14, code A; plus any other income allocable to the profitable businesses. Do not include Conservation Reserve Program payments exempt from self-employment tax. See the Instructions for Schedule SE (Form 1040). **Do not** include any net losses shown on these schedules 5. **1,575**
6. Divide line 4 by line 5 6. **1.000000**
7. Multiply Form 1040 (or Form 1040NR), line 27, by the percentage on line 6 7. **112**
8. Subtract line 7 from line 4 8. **1,463**
9. Enter the amount, if any, from Form 1040 (or Form 1040NR), line 28, attributable to the same trade or business in which the insurance plan is established 9. **1,463**
10. Subtract line 9 from line 8 10. **1,463**
11. Enter your Medicare wages (Form W-2, box 5) from an S corporation in which you are a more-than-2% shareholder and in which the insurance plan is established 11. **1,463**
12. Enter any amount from Form 2555, line 45, attributable to the amount entered on line 4 or 11 above, or any amount from Form 2555-EZ, line 18, attributable to the amount entered on line 11 above 12. **1,463**
13. Subtract line 12 from line 10 or 11, whichever applies 13. **1,463**
14. Enter the **smaller** of line 3 or line 13 here and on Form 1040 (or Form 1040NR), line 29. **Do not** include this amount when figuring any medical expense deduction on Schedule A (Form 1040) 14. **1,463**

* If you used either optional method to figure your net earnings from self-employment from any business, do not enter your net profit from the business. Instead, enter the amount attributable to that business from Schedule SE (Form 1040), Section B, line 4b.

** **Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. However, it does not include capital gain income.

Example 2: A Married Clergy Couple with Two Children

The Reverend Maria Lee is the rector of St. John's Episcopal Church in Louisville, Kentucky. She is 44 years old. Her husband, the Reverend John Lee, age 46, is the part-time priest-in-charge at Church of the Incarnation in Elizabethtown, Kentucky – about 45 miles from their home, which they own. They file a joint federal tax return. The Lees' tax return for 2016 follows the narrative. Note that they both report their respective church incomes as employees.

St. John's pays for Maria's medical insurance.

Gross Incomes from Their Respective Churches

Maria

Total compensation	\$97,200
St. John's vestry designation of housing allowance	\$35,000
Contribution to 403(b) - RSVP	\$3,000
Honoraria for speaking to community groups	\$500
Imputed cost of life insurance - age 44.....	\$60
Salary reduction for Sec. 125 plan	\$7,200

John

Total compensation	\$40,000
Contribution to 403(b) - RSVP	\$3,000
Honoraria for speaking to community groups	\$1,000
Imputed cost of life insurance - age 46.....	\$90

Forms W-2

Maria chose to have the couple's housing allowance designated as part of her compensation. Note that the housing allowance of \$35,000 and her RSVP contribution of \$3,000 are omitted from Box 1 of her Form W-2, and the imputed income of \$60 is added to Box 1, so her reported wages are \$52,060. The housing allowance is reported in Box 14 of her Form W-2. Her contribution to RSVP is reported in Box 12 of her Form W-2, coded E, and the imputed income for life insurance is reported in Box 12, coded C. Federal income taxes withheld are reported in Box 2.

John has no housing allowance designated because enough was received through Maria's housing allowance. His RSVP contribution is omitted from Box 1 of his Form W-2, and the imputed income of \$90 is added to Box 1, so his reported wages are \$37,090.

Medical Insurance

The Lees both work in the same diocese, although at different churches. They have chosen the same medical plan, which costs \$500 per month for the employee, \$500 per month for the same dependent, and \$600 per month for their two children. Therefore, Maria has chosen to be the employee enrolled in the medical plan for the entire family. Maria's church pays for her coverage (\$500) and receives reimbursement from John's parish for his coverage (\$500). Maria reduces her pay using a Section 125 plan by the amount her parish has to pay — \$600 per month — for their two children.

Setting the Housing Allowance

The Lees asked a real estate professional to provide an estimate of the fair rental value of their house, plus furnishings, to which they added the cost of utilities. The estimate of \$35,000 per year was then provided to the Vestry of St. John's Church, which passed the appropriate resolution in December 2015 for 2016.

Actual Housing Costs

The Lees' costs for 2015 were as follows:

Mortgage payments - principal and interest.....	\$15,000
Utilities	\$5,200
Home insurance.....	\$1,350
Real property taxes.....	\$6,500
Furniture repair.....	\$750
Cleaning company	\$2,400
Gardening supplies	\$500
Total housing costs	\$31,700

Since the total housing costs are less than the fair rental value and the resolution, each of which are \$35,000, the exclusion is limited to \$31,700.

Itemized Deductions To Be Filed on Schedule A

Medical expenses not covered by insurance.....	\$1,500
Taxes: real estate taxes paid in 2016.....	\$6,000
State income taxes paid in 2016	\$1,500
Interest: mortgage interest on home loan	\$6,000
Interest on credit cards and car loan	\$600
Cash contributions to churches and charities	\$12,000
Business expenses to earn honoraria	
Maria.....	\$100
John.....	\$350

Schedules C

Since both Maria and John each have true self-employment income from honoraria, each should file a Schedule C with their joint 1040 return.

1040 SE Return

Even though the Lees are each employees of their respective churches, each must report income on separate 1040 SE returns. Each should prepare a schedule to attach to his or her return listing the wages from his or her respective Form W-2 and the net income from the respective Schedule C. Maria should add to her schedule the \$35,000 received as a housing allowance. Thus, each spouse will arrive at the income subject to the self-employment tax.

American Opportunity Tax Credit

The Lees' older child is enrolled at the local public four-year college. His tuition is \$8,000 per year. The family is eligible for the AOTC.

Withholding Tax

Clergy can prepay taxes by paying quarterly estimates, but many clergy find it easier and more flexible to request that the church withhold federal income tax from their paychecks. The withholding can be uneven during the year without running the risk of penalties. Quarterly estimate payment rules, on the other hand, are rigid as to timing and amount of the payments.

One can have enough federal income tax withheld to pay both federal income and self-employment taxes.

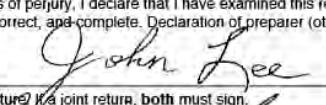
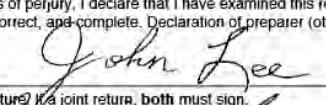
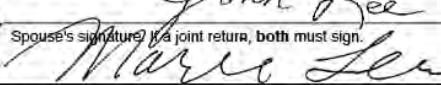
John had \$6,000 of federal income tax withheld by his parish in 2016. Maria had \$14,000 withheld during the year by her parish.

Form 1040 U.S. Individual Income Tax Return (99) 2016 OMB No. 1545-0074 IRS Use Only-Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning		2016, ending	20	See separate instructions.
Your first name and initial		Last name		Your social security number
Maria		Lee		456-78-9012
If a joint return, spouse's first name and initial		Last name		Spouse's social security number
John		Lee		567-89-0124
Home address (number and street)		Apt. no.		▲ Make sure the SSN(s) above and on line 6c are correct.
175 Elm Street				
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
Sunnyside IL				<input type="checkbox"/> You <input type="checkbox"/> Spouse
Foreign country name		Foreign province/state/county	Foreign postal code	
Filing Status	1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above Check only one box.	4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.		
and full name here. ►		5 <input type="checkbox"/> Qualifying widow(er) with dependent child		
Exemptions	6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input checked="" type="checkbox"/> Spouse c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) Chk if child under age 17 qualifying for child tax credit (see instructions)			Boxes checked on 6a and 6b 2 No. of children on 6c who: • lived with you 2 • did not live with you due to divorce or separation (see instructions)
If more than four dependents, see instructions and check here ►	John Lee 123-45-6789 Son Sarah Lee 123-45-6780 Daughter			Dependents on 6c not entered above
	d Total number of exemptions claimed			Add numbers on lines above ► 4
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2 Excess Allowance 3,300 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ► 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a b Taxable amount 16a Pensions and annuities 16a b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a b Taxable amount 21 Other income 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ► 92,450	7 8a 9a 10 11 12 1,050 13 14 15b 16b 17 18 19 20b 21 22 93,500		
Adjusted Gross Income	23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 27 8,846 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ► 31a 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 35 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ► 37 84,654			

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

Form 1040 (2016)

Tax and Credits	38 Amount from line 37 (adjusted gross income)	38	84,654
	39a Check <input type="checkbox"/> You were born before January 2, 1951, if: Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Total boxes checked ► 39a <input type="checkbox"/> Blind.		
Standard Deduction for -	b If your spouse itemizes on a separate return or you were a dual-status alien, check here . . . ► 39b <input type="checkbox"/>		
• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	25,500
	41 Subtract line 40 from line 38	41	59,154
	42 Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see Instructions . . .	42	16,000
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	43,154
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> _____	44	5,554
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	
	46 Excess advance premium tax credit repayment. Attach Form 8962	46	
	47 Add lines 44, 45, and 46 ►	47	5,554
	48 Foreign tax credit. Attach Form 1116 if required	48	
	49 Credit for child and dependent care expenses. Attach Form 2441	49	
	50 Education credits from Form 8863, line 19	50	1,500
	51 Retirement savings contributions credit. Attach Form 8880	51	
	52 Child tax credit. Attach Schedule 8812, if required	52	1,000
	53 Residential energy credit. Attach Form 5695	53	
	54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> _____	54	
	55 Add lines 48 through 54. These are your total credits	55	2,500
	56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ►	56	3,054
Other Taxes	57 Self-employment tax. Attach Schedule SE	57	17,691
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60 a Household employment taxes from Schedule H	b First-time homebuyer credit repayment. Attach Form 5405 if required	60a	
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	60b	
	62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	61	
	63 Add lines 56 through 62. This is your total tax ►	62	
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64	20,000
If you have a qualifying child, attach Schedule EIC.	65 2015 estimated tax payments and amount applied from 2014 return	65	
	66a Earned income credit (EIC)	66a	
	b Nontaxable combat pay election 66b <input type="checkbox"/>	66b	
	67 Additional child tax credit. Attach Schedule 8812	67	
	68 American opportunity credit from Form 8863, line 8	68	1,000
	69 Net premium tax credit. Attach Form 8962	69	
	70 Amount paid with request for extension to file	70	
	71 Excess social security and tier 1 RRTA tax withheld	71	
	72 Credit for federal tax on fuels. Attach Form 4136	72	
	73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/> _____	73	
	74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments ►	74	21,000
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	255
Direct deposit? See instructions.	76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here . . . ► <input type="checkbox"/> b Routing number <input type="checkbox"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="checkbox"/>	76a	255
	77 Amount of line 75 you want applied to your 2016 estimated tax 77		
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	
	79 Estimated tax penalty (see instructions) 79		
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? Designee's name ► Your signature  Date 3-10-17 Your occupation Minister Phone no. ► Personal identification number (PIN) <input type="checkbox"/> Yes. Complete below. <input checked="" type="checkbox"/> No		
Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
Joint return? See instructions. Keep a copy for your records.	Your signature  Date 3-10-17 Your occupation Minister	Daytime phone number	Identity Protection PIN (see inst.)
	Spouse's signature? If a joint return, both must sign.  Date 3-10-17 Spouse's occupation Minister		
Paid Preparer Use Only	Preparer's signature Date Check <input type="checkbox"/> if self-employed PTIN	Firm's name ► Firm's EIN ►	Firm's address ► Phone no.

SCHEDULE A
(Form 1040)

Itemized Deductions

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

► Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
► Attach to Form 1040.

2016
Attachment
Sequence No. 07

Name(s) shown on Form 1040

Maria & John Lee

Your social security number
456-78-9012

Caution: Do not include expenses reimbursed or paid by others.		
Medical and Dental Expenses	1 Medical and dental expenses (see instructions)	1 1,500
	2 Enter amount from Form 1040, line 38 2 84,654	
	3 Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead 3 8,465	
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4 0
Taxes You Paid	5 State and local (check only one box): a <input checked="" type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes	5 1,500
	6 Real estate taxes (see instructions)	6 6,000
	7 Personal property taxes	7
	8 Other taxes. List type and amount ►	8
	9 Add lines 5 through 8	9 7,500
	10 Home mortgage interest and points reported to you on Form 1098	10 6,000
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11
	12 Points not reported to you on Form 1098. See instructions for special rules	12
	13 Mortgage insurance premiums (see instructions)	13
14 Investment interest. Attach Form 4952 if required. (See instructions.)	14	
15 Add lines 10 through 14	15 6,000	
Gifts to Charity If you made a gift and got a benefit for it, see instructions.	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16 12,000
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17
	18 Carryover from prior year	18
	19 Add lines 16 through 18	19 12,000
	Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instr.) ►	21
	22 Tax preparation fees	22
	23 Other expenses - investment, safe deposit box, etc. List type and amount ►	23
	24 Add lines 21 through 23	24
	25 Enter amount from Form 1040, line 38 25	25
	26 Multiply line 25 by 2% (0.02)	26
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27
Other Miscellaneous Deductions	28 Other - from list in instructions. List type and amount ►	28
	29 Is Form 1040, line 38, over \$155,650? ☒ No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☐ Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.	29 25,500
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here □	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

EEA

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

OMB No. 1545-0074

2016

Attachment
Sequence No. **09**

Name of proprietor

Maria Lee

A Principal business or profession, including product or service (see instructions)

Minister

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

Social security number (SSN)

456-78-9012

B Enter code from instructions

541990

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ► **175 Elm Street**

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

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ►

G Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses . . . Yes No

H If you started or acquired this business during 2016, check here ►

I Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) Yes X No

J If "Yes," did you or will you file required Forms 1099? Yes X No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ►	<input type="checkbox"/>	1	500
2 Returns and allowances	<input type="checkbox"/>	2	0
3 Subtract line 2 from line 1	<input type="checkbox"/>	3	500
4 Cost of goods sold (from line 42)	<input type="checkbox"/>	4	
5 Gross profit. Subtract line 4 from line 3	<input type="checkbox"/>	5	500
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	<input type="checkbox"/>	6	
7 Gross income. Add lines 5 and 6 ►	<input type="checkbox"/>	7	500

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

8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions)	9	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a
12 Depletion	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest:		24 Travel, meals, and entertainment:	
a Mortgage (paid to banks, etc.)	16a	a Travel	24a
b Other	16b	b Deductible meals and entertainment (see instructions)	24b
17 Legal and professional services	17	25 Utilities	25
28 Total expenses before expenses for business use of home. Add lines 8 through 27a ►	<input type="checkbox"/>	26 Wages (less employment credits)	26
29 Tentative profit or (loss). Subtract line 28 from line 7	<input type="checkbox"/>	27 a Other expenses (from line 48)	27a
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).		b Reserved for future use	27b
Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the Instructions to figure the amount to enter on line 30		30	
31 Net profit or (loss). Subtract line 30 from line 29.		31	400
• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3.		32a <input type="checkbox"/>	All investment is at risk.
• If a loss, you must go to line 32.		32b <input type="checkbox"/>	Some investment is not at risk.
32 If you have a loss, check the box that describes your investment in this activity (see instructions).			
• If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3.			
• If you checked 32b, you must attach Form 6198. Your loss may be limited.			

For Paperwork Reduction Act Notice, see the separate instructions.

Schedule C (Form 1040) 2016

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

OMB No. 1545-0074

2016

Attachment
Sequence No. **09**

Name of proprietor

John Lee

A Principal business or profession, including product or service (see instructions)

Minister

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

Social security number (SSN)

567-89-0124

B Enter code from instructions

541990

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ► **175 Elm Street**

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

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ►

G Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses . . . Yes No

H If you started or acquired this business during 2016, check here Yes No

I Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) Yes No

J If "Yes," did you or will you file required Forms 1099? Yes No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	► <input type="checkbox"/>	1 1,000
2 Returns and allowances		2 0
3 Subtract line 2 from line 1		3 1,000
4 Cost of goods sold (from line 42)		4
5 Gross profit. Subtract line 4 from line 3		5 1,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6
7 Gross income. Add lines 5 and 6	►	7 1,000

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

8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions)	9	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a
12 Depletion	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest:		24 Travel, meals, and entertainment:	
a Mortgage (paid to banks, etc.)	16a	a Travel	24a 350
b Other	16b	b Deductible meals and entertainment (see instructions)	24b
17 Legal and professional services	17	25 Utilities	25
28 Total expenses before expenses for business use of home. Add lines 8 through 27a		26 Wages (less employment credits)	26
29 Tentative profit or (loss). Subtract line 28 from line 7		27 a Other expenses (from line 48)	27a
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).		b Reserved for future use	27b

28 **Total expenses** before expenses for business use of home. Add lines 8 through 27a ►

29 Tentative profit or (loss). Subtract line 28 from line 7

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).

Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____ Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30

31 **Net profit or (loss).** Subtract line 30 from line 29.

- If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3**.
- If a loss, you **must** go to line 32.

32 If you have a loss, check the box that describes your investment in this activity (see instructions).

- If you checked 32a, enter the loss on both **Form 1040, line 12**, (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3**.
- If you checked 32b, you **must** attach **Form 6198**. Your loss may be limited.

For Paperwork Reduction Act Notice, see the separate instructions.

Schedule C (Form 1040) 2016

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

OMB No. 1545-0074

2016

Attachment
Sequence No. 17

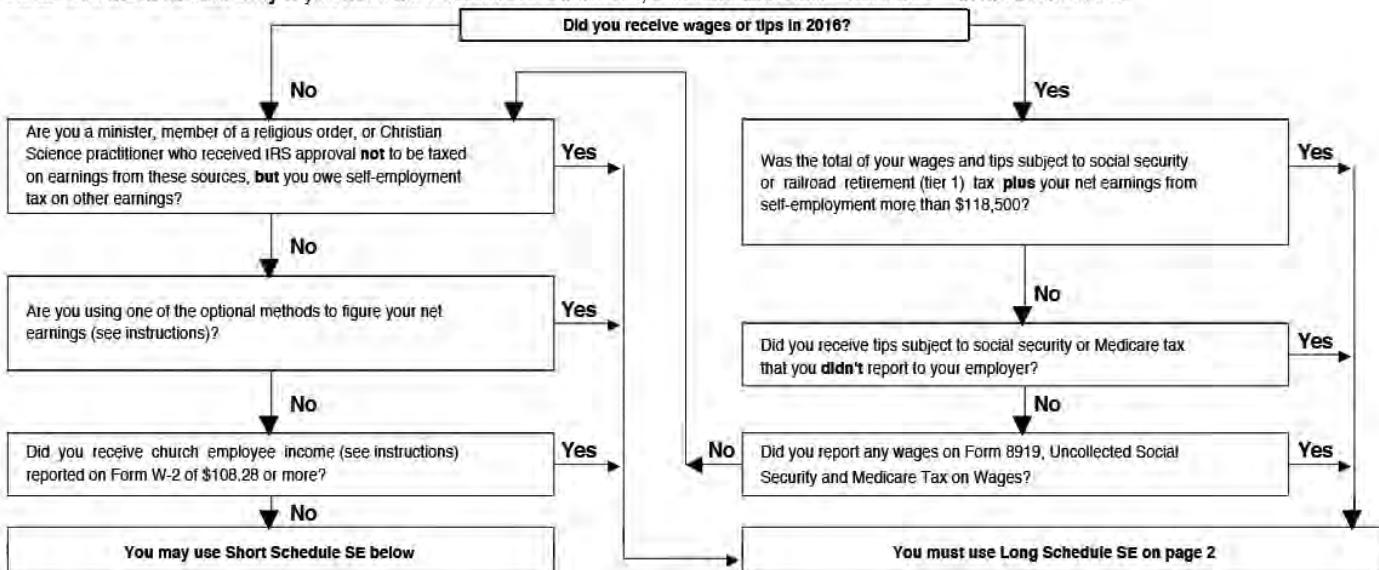
Name of person with self-employment income (as shown on Form 1040 or Form 1040NR)
Maria Lee

Social security number of person
with self-employment income ► **456-78-9012**

Before you begin: To determine if you must file Schedule SE, see the instructions.

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

Note. Use this flowchart only if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



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

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	()
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	87,460
3	Combine lines 1a, 1b, and 2	3	87,460
4	Multiply line 3 by 92.35% (0.9235). If less than \$400, you do not owe self-employment tax; don't file this schedule unless you have an amount on line 1b	4	80,769
	Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	Self-employment tax. If the amount on line 4 is: <ul style="list-style-type: none"> • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	12,358
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	6,179

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

Schedule SE (Form 1040) 2016

EEA

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

OMB No. 1545-0074

2016

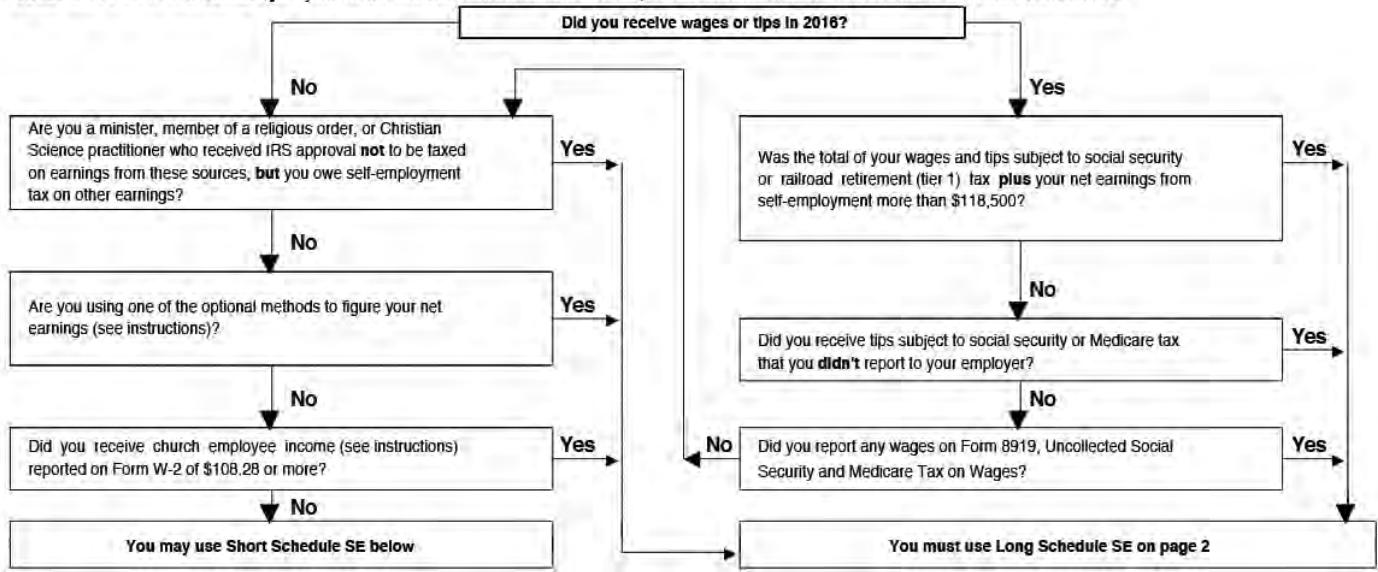
Attachment
Sequence No. 17

Name of person with self-employment income (as shown on Form 1040 or Form 1040NR) John Lee	Social security number of person with self-employment income ►	567-89-0124
---	--	--------------------

Before you begin: To determine if you must file Schedule SE, see the instructions.

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

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A - Short Schedule SE. Caution.

Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z ..	1b	()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	37,740
3 Combine lines 1a, 1b, and 2	3	37,740
4 Multiply line 3 by 92.35% (0.9235). If less than \$400, you do not owe self-employment tax; don't file this schedule unless you have an amount on line 1b	4	34,853
Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5 Self-employment tax. If the amount on line 4 is: <ul style="list-style-type: none"> • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55 	5	5,333
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	2,667

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

Schedule SE (Form 1040) 2016

EEA

**Education Credits
(American Opportunity and Lifetime Learning Credits)**

OMB No. 1545-0074

2016Department of the Treasury
Internal Revenue Service (99)

► Attach to Form 1040 or Form 1040A.

Attachment
Sequence No. 50

Name(s) shown on return

Maria & John Lee

Your social security number
456-78-9012**CAUTION**

Complete a separate Part III on page 2 for each student for whom you're claiming either credit before you complete Parts I and II.

Part I Refundable American Opportunity Credit

1	After completing Part III for each student, enter the total of all amounts from all Parts III, line 30	1	2,500
2	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	2	180,000
3	Enter the amount from Form 1040, line 38, or Form 1040A, line 22, If you're filing Form 2555, 2555-EZ, or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter	3	84,654
4	Subtract line 3 from line 2. If zero or less, stop; you can't take any education credit	4	95,346
5	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	5	20,000
6	If line 4 is: <ul style="list-style-type: none"> • Equal to or more than line 5, enter 1.000 on line 6 • Less than line 5, divide line 4 by line 5. Enter the result as a decimal (rounded to at least three places) 	6	1.000
7	Multiply line 1 by line 6. Caution: If you were under age 24 at the end of the year and meet the conditions described in the instructions, you can't take the refundable American opportunity credit; skip line 8, enter the amount from line 7 on line 9, and check this box ► <input type="checkbox"/>	7	2,500
8	Refundable American opportunity credit. Multiply line 7 by 40% (0.40). Enter the amount here and on Form 1040, line 68, or Form 1040A, line 44. Then go to line 9 below	8	1,000

Part II Nonrefundable Education Credits

9	Subtract line 8 from line 7. Enter here and on line 2 of the Credit Limit Worksheet (see instructions)	9	1,500
10	After completing Part III for each student, enter the total of all amounts from all Parts III, line 31. If zero, skip lines 11 through 17, enter -0- on line 18, and go to line 19	10	
11	Enter the smaller of line 10 or \$10,000	11	
12	Multiply line 11 by 20% (0.20)	12	
13	Enter: \$131,000 if married filing jointly; \$65,000 if single, head of household, or qualifying widow(er)	13	
14	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you're filing Form 2555, 2555-EZ, or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter	14	
15	Subtract line 14 from line 13. If zero or less, skip lines 16 and 17, enter -0- on line 18, and go to line 19	15	
16	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	16	
17	If line 15 is: <ul style="list-style-type: none"> • Equal to or more than line 16, enter 1.000 on line 17 and go to line 18 • Less than line 16, divide line 15 by line 16. Enter the result as a decimal (rounded to at least three places) 	17	
18	Multiply line 12 by line 17. Enter here and on line 1 of the Credit Limit Worksheet (see instructions) ► <input type="checkbox"/>	18	
19	Nonrefundable education credits. Enter the amount from line 7 of the Credit Limit Worksheet (see instructions) here and on Form 1040, line 50, or Form 1040A, line 33	19	1,500

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

Form 8863 (2016)

EEA

Name(s) shown on return

Maria & John Lee

Your social security number

456-78-9012

!
CAUTION

Complete Part III for each student for whom you're claiming either the American opportunity credit or lifetime learning credit. Use additional copies of page 2 as needed for each student.

Part III Student and Educational Institution Information

See instructions.

20 Student name (as shown on page 1 of your tax return)	21 Student social security number (as shown on page 1 of your tax return)		
John Lee	567-89-0124		
22 Educational institution information (see instructions)			
a. Name of first educational institution Local U	b. Name of second educational institution (if any)		
(1) Address. Number and street (or P.O. box). City, town or post office, state, and ZIP code. If a foreign address, see instructions.	(1) Address. Number and street (or P.O. box). City, town or post office, state, and ZIP code. If a foreign address, see instructions.		
(2) Did the student receive Form 1098-T from this institution for 2016? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	(2) Did the student receive Form 1098-T from this institution for 2016? <input type="checkbox"/> Yes <input type="checkbox"/> No		
(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If you checked "No" in both (2) and (3), skip (4).	If you checked "No" in both (2) and (3), skip (4).		
(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T).	(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T).		
23 Has the Hope Scholarship Credit or American opportunity credit been claimed for this student for any 4 tax years before 2016?	<input type="checkbox"/> Yes - Stop! Go to line 31 for this student.		<input checked="" type="checkbox"/> No - Go to line 24.
24 Was the student enrolled at least half-time for at least one academic period that began or is treated as having begun in 2016 at an eligible educational institution in a program leading towards a postsecondary degree, certificate, or other recognized postsecondary educational credential? See instructions.	<input checked="" type="checkbox"/> Yes - Go to line 25.		<input type="checkbox"/> No - Stop! Go to line 31 for this student.
25 Did the student complete the first 4 years of postsecondary education before 2016? See instructions.	<input type="checkbox"/> Yes - Stop! Go to line 31 for this student.		<input checked="" type="checkbox"/> No - Go to line 26.
26 Was the student convicted, before the end of 2016, of a felony for possession or distribution of a controlled substance?	<input type="checkbox"/> Yes - Stop! Go to line 31 for this student.		<input checked="" type="checkbox"/> No - Complete lines 27 through 30 for this student.
! CAUTION	You can't take the American opportunity credit and the lifetime learning credit for the same student in the same year. If you complete lines 27 through 30 for this student, don't complete line 31.		
American Opportunity Credit			
27 Adjusted qualified education expenses (see instructions). Don't enter more than \$4,000	27	4,000	
28 Subtract \$2,000 from line 27. If zero or less, enter -0-	28	2,000	
29 Multiply line 28 by 25% (0.25)	29	500	
30 If line 28 is zero, enter the amount from line 27. Otherwise, add \$2,000 to the amount on line 29 and enter the result. Skip line 31. Include the total of all amounts from all Parts III, line 30 on Part I, line 1	30	2,500	
Lifetime Learning Credit			
31 Adjusted qualified education expenses (see instructions). Include the total of all amounts from all Parts III, line 31, on Part II, line 10	31		

**Figuring Net Self-Employment Income for
Schedule SE (Form 1040)**

(Keep for your records)

Worksheet 4

Name(s) as shown on return

Maria Lee

2016

Tax ID Number

456-78-9012

1	W-2 salary as a minister (from box 1 of Form W-2)	1		52,060
2	Net profit from Schedule C, line 31, or Schedule C-EZ, line 3	2		
3a	Parsonage or rental allowance (from Worksheet 1, line 3a or 4a)	3a	35,000	
b	Utility allowance (from Worksheet 1, line 3b or 4b)	3b		
c	Total allowance (add lines 3a and 3b)	3c		35,000
4	Add lines 1, 2, and 3c	4		87,060
5	Schedule C or C-EZ expenses allocable to tax-free income (from Worksheet 2, line 6)	5		
6	Total unreimbursed employee business expenses after the 50% reduction for meals and entertainment (from Worksheet 3, line 9)	6		
7	Total business expenses not deducted in lines 1 and 2 above (add lines 5 and 6)	7		
8	Net self-employment income. Subtract line 7 from line 4. Enter here and on Schedule SE, Section A, line 2, or Section B, line 2.	8		87,060

**Figuring Net Self-Employment Income for
Schedule SE (Form 1040)**

(Keep for your records)

Worksheet 4

Name(s) as shown on return

John Lee

2016

Tax ID Number

567-89-0124

1	W-2 salary as a minister (from box 1 of Form W-2)	1		37,090
2	Net profit from Schedule C, line 31, or Schedule C-EZ, line 3	2		
3a	Parsonage or rental allowance (from Worksheet 1, line 3a or 4a)	3a		
b	Utility allowance (from Worksheet 1, line 3b or 4b)	3b		
c	Total allowance (add lines 3a and 3b)	3c		
4	Add lines 1, 2, and 3c	4		37,090
5	Schedule C or C-EZ expenses allocable to tax-free income (from Worksheet 2, line 6)	5		
6	Total unreimbursed employee business expenses after the 50% reduction for meals and entertainment (from Worksheet 3, line 9)	6		
7	Total business expenses not deducted in lines 1 and 2 above (add lines 5 and 6)	7		
8	Net self-employment income. Subtract line 7 from line 4. Enter here and on Schedule SE, Section A, line 2, or Section B, line 2.	8		37,090

Example 3: A Recent Widow Who Was Married to a Retired Minister

The Reverend Joseph X. Wetherfield	died at age 75
Seraphina Y. Wetherfield	age 71
Father Wetherfield's annual pension benefit.....	\$33,115
100% designation housing allowance	
Seraphina Wetherfield	receiving Joint and 50% Survivor Annuity
Interest from bank account.....	\$74

The Reverend Joseph X. Wetherfield was a retired priest. He died on December 25, 2015 at age 75. He and his wife, the former debutante, Seraphina Y. Verditer, were married for 42 years. Seraphina is 71 years old and retired from her career as a camp counselor. When Father Wetherfield retired, he had designated that his wife would receive a Joint and 50% Survivor Annuity amount of his pension when he passed. Father Wetherfield had received \$33,115 in pension income, all of which is designated in advance by The Church Pension Fund as a housing allowance. Father Wetherfield had \$35,280 of housing expenses for 2015. Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they are used to pay for housing-related expenses that do not exceed the fair rental value of the home, furnished, plus utilities. Father Wetherfield also had an RSVP distribution of \$1,000. Since Father Wetherfield's housing-related expenses exceeded the amount he received from his pension by \$2,165 (\$35,280 - \$33,115), the entire \$1,000 RSVP distribution was also designated as housing allowance. His wife, Seraphina, also has a small pension of \$7,550 per year. While Father Wetherfield was alive and eligible to utilize the housing allowance, none of the pension or RSVP distribution was subject to income taxation. Therefore, their combined taxable pension amount was just Mrs. Wetherfield's pension distribution of \$7,550.

Because Father Wetherfield had more than 20 years of credited service, the Medical Trust's Medicare Supplement Plan was fully subsidized for himself and Mrs. Wetherfield.

Father Wetherfield was a "stogiephile." He had a rather extensive collection of cigar bands from around the world and dabbled in collecting, trading, and selling them. Although he occasionally made some money from his stogiephilia, he considered it a passion and hobby, rather than a business. Based on the tax regulations used for determining whether an activity is a business or a hobby,* the IRS would agree with him. Therefore, neither the income nor the expenses were relevant to the Wetherfields' tax picture.

Father Wetherfield received \$21,250 in Social Security benefit payments in 2015, and Mrs. Wetherfield received \$8,850 in her benefit payments for 2016. They also had \$74 of taxable interest from their bank accounts in 2015.

The tax forms on pages 56 and 57 show the Wetherfields' 2015 tax situation with Father Wetherfield's pension benefit factored in as housing allowance; their 2016 adjusted gross income was \$7,624, and they owed no federal taxes. The forms on pages 58 and 59 show Mrs. Wetherfield's 2016 tax situation now that her husband is deceased and she can no longer exclude his pension benefit as housing allowance; her 2016 adjusted gross income was \$31,218, and she owes \$2,493 in federal taxes. A cleric preparing for retirement should consider designating more than the 50% Survivor Annuity so that his or her surviving spouse has additional funds available to pay the increased federal taxes.

*An activity is presumed for profit if it makes a profit in at least three of the last five tax years, including the current year (or at least two of the last seven years for activities that consist primarily of breeding, showing, training, or racing horses).

Form 1040 U.S. Individual Income Tax Return (99) 2015 OMB No. 1545-0074 IRS Use Only-Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2015, or other tax year beginning		, 2015, ending	, 20	See separate instructions.
Your first name and initial Joseph	Last name Wetherfield	DECEASED - 12252015		Your social security number 123-45-6789
If a joint return, spouse's first name and initial Seraphina	Last name Wetherfield			Spouse's social security number 234-56-7891
Home address (number and street). % Seraphina 565 Old Country Road			Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Florence WI 54121				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
Foreign country name Foreign province/state/county Foreign postal code				
Filing Status	1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ►	4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 <input type="checkbox"/> Qualifying widow(er) with dependent child		
Exemptions	6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input checked="" type="checkbox"/> Spouse c Dependents: (1) First name _____ Last name _____	(2) Dependent's social security number _____	(3) Dependent's relationship to you _____	(4) Chk if child under age 17 qualifying for child tax credit (see instructions) <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
If more than four dependents, see instructions and check here ►				Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions)
				Dependents on 6c not entered above Add numbers on lines above ► 2
	d Total number of exemptions claimed			
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ► <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 16a Pensions and annuities 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 21 Other income 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ►	7 8a 9a 10 11 12 13 14 15b 16b 17 18 19 20b 21 22	74 7,550 7,624	
Adjusted Gross Income	23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ► 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ►	23 24 25 26 27 28 29 30 31a 32 33 34 35 36 37		

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

Form 1040 (2015)

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	7,624	
	39a	Check { <input checked="" type="checkbox"/> You were born before January 2, 1951, if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1951,	<input type="checkbox"/> Blind. } Total boxes <input type="checkbox"/> Blind. checked ► 39a 2		
Standard Deduction for - • People who check any box on line 38a or 38b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here . . . ► 39b <input type="checkbox"/>	40	15,100	
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	15,100	
	41	Subtract line 40 from line 38	41	(7,476)	
	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42	8,000	
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	0	
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4872 c <input type="checkbox"/>	44	0	
	45	Alternative minimum tax (see instructions). Attach Form 6251	45		
	46	Excess advance premium tax credit repayment. Attach Form 8962	46		
	47	Add lines 44, 45, and 46	47		
	48	Foreign tax credit. Attach Form 1116 if required	48		
49	Credit for child and dependent care expenses. Attach Form 2441	49			
50	Education credits from Form 8863, line 19	50			
51	Retirement savings contributions credit. Attach Form 8880	51			
52	Child tax credit. Attach Schedule 8812, if required	52			
53	Residential energy credit. Attach Form 5695	53			
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54			
55	Add lines 48 through 54. These are your total credits	55			
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ►	56	0		
Other Taxes	57	Self-employment tax. Attach Schedule SE	57		
	58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
	60a	Household employment taxes from Schedule H	60a		
	60b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
	61	Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61		
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62		
	63	Add lines 56 through 62. This is your total tax	63	0	
	Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	
		65	2015 estimated tax payments and amount applied from 2014 return	65	
66a		Earned income credit (EIC)	66a	NO	
b		Nontaxable combat pay election . . . 66b	66b		
67		Additional child tax credit. Attach Schedule 8812	67		
68		American opportunity credit from Form 8863, line 8	68		
69		Net premium tax credit. Attach Form 8962	69		
70		Amount paid with request for extension to file	70		
71		Excess social security and tier 1 RRTA tax withheld	71		
72		Credit for federal tax on fuels. Attach Form 4136	72		
73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73			
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	0		
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75		
	76a	Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ► <input type="checkbox"/>	76a		
	b	Routing number <input checked="" type="checkbox"/> ► c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
	d	Account number <input checked="" type="checkbox"/>			
	77	Amount of line 75 you want applied to your 2016 estimated tax . . . ► 77	77		
	Amount You Owe	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ►	78	
		79	Estimated tax penalty (see instructions) 79	79	
	Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? Designee's name ► Phone no. ► Personal identification number (PIN) ►			<input type="checkbox"/> Yes. Complete below. <input checked="" type="checkbox"/> No
		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 _____ Date _____ Your occupation _____ Daytime phone number _____

the preparer has any knowledge.

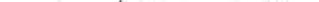
FILED AS SURVIVING SPOUSE Retired Clergy

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

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

10. The following table shows the number of hours worked by 1000 employees in a company.

Preparer's signature Date Check# # PTIN

Preparer's signature  Date 3-10-17 Check

Jessica McHugh 3-10-17 self-employed

Print/Type preparer's name _____

Print/type preparer's name _____

Firm's name ► **Firm's EIN** ►

Firm's address: ►

Firm's address: _____

| Phone no.

The 2017 Tax Guide for Episcopal Ministers

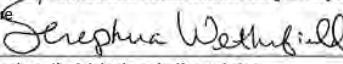
However, now that Father Wetherfield is deceased for the 2016 tax year, even though all the numbers in this example remain unchanged, Mrs. Wetherfield's tax situation has changed dramatically.

Form 1040 U.S. Individual Income Tax Return (99)		Department of the Treasury - Internal Revenue Service	(99)	2016	OMB No. 1545-0074	IRS Use Only-Do not write or staple in this space.	
For the year Jan. 1-Dec. 31, 2016, or other tax year beginning		, 2016, ending		, 20	See separate instructions.		
Your first name and initial		Last name				Your social security number	
Seraphina		Wetherfield				234-56-7891	
If a joint return, spouse's first name and initial		Last name				Spouse's social security number	
Home address (number and street). 8 Seraphina 565 Old Country Road				Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.		
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Florence WI 54121				Presidential Election Campaign			
Foreign country name		Foreign province/state/county		Foreign postal code		Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.	
Filing Status		1 <input checked="" type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above Check only one box. and full name here. ►		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.		<input type="checkbox"/> You <input type="checkbox"/> Spouse	
Exemptions		6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse c Dependents: (1) First name _____ Last name _____		(2) Dependent's social security number _____	(3) Dependent's relationship to you _____	(4) Chk if child under age 17 qualifying for child tax credit (see instructions) <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Boxes checked on 6a and 6b No. of children on 6c who: • lived with you ■ did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ►
Income		d Total number of exemptions claimed				1	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ► <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a b Taxable amount 16a Pensions and annuities 16a b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a 21,250 b Taxable amount 21 Other income 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ►		7 8a 74 9a 10 11 12 13 14 15b 16b 25,108 17 18 19 20b 6,036 21 22 31,218			
Adjusted Gross Income		23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ► 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ►		23 24 25 26 27 28 29 30 31a 32 33 34 35 36 37 31,218			

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

Form 1040 (2016)

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	31,218
39a	Check <input checked="" type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. checked ► 39a 1		
Standard Deduction for -			
• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.			
• All others:			
Single or Married filing separately, \$6,300			
Married filing jointly or Qualifying widow(er), \$12,600			
Head of household, \$9,300			
40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	7,850	
41 Subtract line 40 from line 38	41	23,368	
42 Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	4,050	
43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	19,318	
44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	2,435	
45 Alternative minimum tax (see instructions). Attach Form 6251	45		
46 Excess advance premium tax credit repayment. Attach Form 8962	46		
47 Add lines 44, 45, and 46 ►	47	2,435	
48 Foreign tax credit. Attach Form 1116 if required	48		
49 Credit for child and dependent care expenses. Attach Form 2441	49		
50 Education credits from Form 8863, line 19	50		
51 Retirement savings contributions credit. Attach Form 8880	51		
52 Child tax credit. Attach Schedule 8812, if required	52		
53 Residential energy credit. Attach Form 5695	53		
54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
55 Add lines 48 through 54. These are your total credits	55		
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ►	56	2,435	
Other Taxes			
57 Self-employment tax. Attach Schedule SE	57		
58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
60 a Household employment taxes from Schedule H	60a		
b First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61		
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62		
63 Add lines 56 through 62. This is your total tax ►	63	2,435	
Payments			
If you have a qualifying child, attach Schedule EIC.			
64 Federal income tax withheld from Forms W-2 and 1099	64		
65 2016 estimated tax payments and amount applied from 2015 return	65		
66a Earned income credit (EIC)	66a		
b Nontaxable combat pay election 66b			
67 Additional child tax credit. Attach Schedule 8812	67		
68 American opportunity credit from Form 8863, line 8	68		
69 Net premium tax credit. Attach Form 8962	69		
70 Amount paid with request for extension to file	70		
71 Excess social security and tier 1 RRTA tax withheld	71		
72 Credit for federal tax on fuels. Attach Form 4136	72		
73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73		
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments ►	74	0	
Refund			
75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75		
76a Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ► <input type="checkbox"/>	76a		
Direct deposit? See instructions. ► b Routing number <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
► d Account number <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			
77 Amount of line 75 you want applied to your 2017 estimated tax ► 77			
Amount You Owe			
78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ►	78	2,493	
79 Estimated tax penalty (see instructions) 79 58			
Third Party Designee			
Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input checked="" type="checkbox"/> No			
Designee's name ► Phone no. ► Personal identification number (PIN) ► Daytime phone number			
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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature  Date 3-10-17 Your occupation			Daytime phone number
Spouse's signature. If a joint return, both must sign.		Identity Protection PIN (see inst.)	
Preparer's signature	Date	Spouse's occupation	
Print/Type preparer's name			
Firm's name ►		Firm's EIN ►	
Firm's address ►		Phone no.	

Example 4: A Single Cleric with a Child Over Age 26

The Reverend Clark B. Williams, age 56, is a single cleric and is rector of St. Julian's in Norwich, Tennessee. He lives in the church's rectory. Clark's son, Brent, celebrated his 27th birthday on November 30, 2015. Brent is working, making \$26,000 a year, but still lives with Father Williams and has remained on Father Williams' insurance through the Episcopal Church Medical Trust. Father Williams' church pays the premium for them both.

Here are some facts regarding Clark's income and expenses for 2016:

Income

Church wages	\$50,000*
Fair rental value of rectory	\$50,000
Designated housing and utilities allowance	\$6,000
Employee contribution to 403(b).....	\$6,000
Honoraria for performing weddings, funerals, etc.	\$1,200
Christmas gift from parish	\$600
Imputed cost of excess life insurance.....	\$258
Imputed value of health insurance for son	\$4,300

*Designated housing and utilities allowance (\$6,000) and employee contribution to 403(b) (\$6,000) are not included in church wages since these items are excluded from gross income of \$62,000.

Housing Expenses Paid in 2016

Although Father Williams is provided a rectory, he still incurs expenses eligible for the housing allowance exclusion. Those expenses include:

Utilities paid by Father Williams	\$3,600
New furniture.....	\$1,500
Kitchen equipment.....	\$600
Miscellaneous cleaning supplies.....	\$150
Total spent	\$5,850

Other Expenses

Medical expenses (out of pocket) for Clark Williams	\$1,000
State income taxes withheld from his paycheck	\$1,200
Charitable contributions to his parish	\$6,200
Other miscellaneous contributions.....	\$500

Father Williams requested that his church withhold federal taxes. In order to cover the amount of SECA tax he would owe, he asked that an additional \$1,260 per month be withheld from his check.

Father Williams asked a real estate professional to give him an estimate of the fair rental value of the rectory. She gave him an estimate of \$50,000.

Miscellaneous Data

Father Williams received a W-2 from his church reflecting the following:

1. Federal Taxable Wages (Box 1), which include:
 - a. Church wages
 - b. Christmas gift from church.....
 - c. Imputed cost of excess life insurance.....
 - d. Imputed value of health insurance for son

Total in Box 1

2. Federal income tax withheld (Box 4)	\$21,852
3. Other – housing and utilities allowance (Box 14)	\$6,000
4. State taxable wages (Box 16)	\$55,158
5. State income tax (Box 17)	\$1,200

Additional information is reported in Box 12 for imputed value of life insurance and employee's contribution to a 403(b).

Excludable Housing and Utility Allowance

To determine the amount of housing and utility allowance that can be excluded from federal taxable income, you must first compare the declared amount to both the actual amount spent and the fair rental value of the property, furnished, plus actual utilities. Since Father Williams lives in a rectory, the fair value for this calculation is the value his furnishings bring to the rectory. He has asked a real estate professional to give him an estimate of that amount. She said that \$2,600 would be the added fair value for his furnishings. The amount excludable is the lowest amount.

1. Designated housing and utilities allowance	\$6,000
2. Actual spent	\$5,850
3. Fair value of furnishing plus actual utilities.....	\$6,200
(\$2,600 fair value + \$3,600 actual utilities paid)	

The most that can be excluded is \$5,850 since it is the lowest number. The excess of \$150 must be added back to federal taxable income. Add this to line 7, noting "excess allowance - \$150" on the dotted line next to line 7.

SECA Tax

Income taxable for SECA:

Total from W-2 Box 1	\$55,158
Fair rental value of rectory	\$50,000
Designated housing and utilities allowance	\$6,000
Total self-employment income	\$111,158

Form 1040 U.S. Individual Income Tax Return (99) 2016 OMB No. 1545-0074 IRS Use Only-Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning		, 2016, ending	, 20	See separate instructions.
Your first name and initial	Last name			Your social security number
Clark B	Williams			555-12-3456
If a joint return, spouse's first name and initial	Last name			Spouse's social security number
Home address (number and street).		Apt. no.		▲ Make sure the SSN(s) above and on line 6c are correct.
123 Main Street				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				<input type="checkbox"/> You <input type="checkbox"/> Spouse
Anytown NJ		Foreign province/state/county	Foreign postal code	
Foreign country name				
Filing Status	1 <input checked="" type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above Check only one box. and full name here. ►	4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.	►	
Exemptions	5 <input type="checkbox"/> Qualifying widow(er) with dependent child	►		Boxes checked on 6a and 6b No. of children on 6e who: • lived with you • did not live with you due to divorce or separation (see instructions)
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse c Dependents:	(1) First name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) Chk if child under age 17 qualifying for child tax credit (see instructions)
				<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
If more than four dependents, see instructions and check here ►	d Total number of exemptions claimed			Add numbers on lines above ► 1
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2	Excess Allowance	150	7 55,308
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	8a Taxable interest. Attach Schedule B if required		8a	
If you did not get a W-2, see instructions.	b Tax-exempt interest. Do not include on line 8a	8b	9a	
	9a Ordinary dividends. Attach Schedule B if required		10	
	b Qualified dividends	9b	11	
	10 Taxable refunds, credits, or offsets of state and local income taxes		12 1,200	
	11 Alimony received		13	
	12 Business income or (loss). Attach Schedule C or C-EZ		14	
	13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ►		15b	
	14 Other gains or (losses). Attach Form 4797		16b	
	15a IRA distributions	15a	17	
	16a Pensions and annuities	16a	18	
	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		19	
	18 Farm income or (loss). Attach Schedule F		20b	
	19 Unemployment compensation		21	
	20a Social security benefits	20a	22 56,508	
Adjusted Gross Income	21 Other income			
	22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ►			
	23 Educator expenses	23		
	24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
	25 Health savings account deduction. Attach Form 8889	25		
	26 Moving expenses. Attach Form 3903	26		
	27 Deductible part of self-employment tax. Attach Schedule SE	27	7,938	
	28 Self-employed SEP, SIMPLE, and qualified plans	28		
	29 Self-employed health insurance deduction	29		
	30 Penalty on early withdrawal of savings	30		
	31a Alimony paid b Recipient's SSN ►	31a		
	32 IRA deduction	32		
	33 Student loan interest deduction	33		
	34 Tuition and fees. Attach Form 8917	34		
	35 Domestic production activities deduction. Attach Form 8903	35		
	36 Add lines 23 through 35	36	7,938	
	37 Subtract line 36 from line 22. This is your adjusted gross income ►	37	48,570	

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

Form 1040 (2016)

Tax and Credits	38 Amount from line 37 (adjusted gross income)	38	48,570
	39a Check <input type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. checked ► 39a <input type="checkbox"/>		
Standard Deduction for - • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,300	b If your spouse itemizes on a separate return or you were a dual-status alien, check here . . . ► 39b <input type="checkbox"/>		
	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	7,900
	41 Subtract line 40 from line 38	41	40,670
	42 Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	4,050
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	36,620
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	5,030
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	
	46 Excess advance premium tax credit repayment. Attach Form 8962	46	
	47 Add lines 44, 45, and 46	47	5,030
	48 Foreign tax credit. Attach Form 1116 if required	48	
	49 Credit for child and dependent care expenses. Attach Form 2441	49	
	50 Education credits from Form 8863, line 19	50	
	51 Retirement savings contributions credit. Attach Form 8880	51	
	52 Child tax credit. Attach Schedule 8812, if required	52	
	53 Residential energy credit. Attach Form 5695	53	
	54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
	55 Add lines 48 through 54. These are your total credits	55	
	56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	5,030
57 Self-employment tax. Attach Schedule SE	57	15,876	
58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
60a Household employment taxes from Schedule H	60a		
b First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61		
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions, enter code(s)	62		
63 Add lines 56 through 62. This is your total tax	63	20,906	
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64	21,852
If you have a qualifying child, attach Schedule EIC.	65 2016 estimated tax payments and amount applied from 2015 return	65	
	66a Earned income credit (EIC)	66a	
	b Nontaxable combat pay election	66b	
	67 Additional child tax credit. Attach Schedule 8812	67	
	68 American opportunity credit from Form 8863, line 8	68	
	69 Net premium tax credit. Attach Form 8962	69	
	70 Amount paid with request for extension to file	70	
	71 Excess social security and tier 1 RRTA tax withheld	71	
	72 Credit for federal tax on fuels. Attach Form 4136	72	
	73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
	74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	21,852
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	946
Direct deposit? See instructions.	76a Amount of line 75 you want refunded to you . If Form 8888 is attached, check here . ► <input type="checkbox"/>	76a	946
	b Routing number <input checked="" type="checkbox"/> ► c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number <input checked="" type="checkbox"/>		
77 Amount of line 75 you want applied to your 2017 estimated tax	77		
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ►	78	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? Designee's name ►	<input type="checkbox"/> Yes. Complete below. Personal identification number (PIN)	<input checked="" type="checkbox"/> No
Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amount and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Your signature <i>Clark B. Williams</i> Date <input type="text" value="3-10-17"/> Your occupation <input type="text" value="Minister"/> Daytime phone number <input type="text"/> Spouse's signature. If a joint return, both must sign.		
Paid Preparer Use Only	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Print/Type preparer's name		
	Firm's name ►	Firm's EIN ►	
	Firm's address ►	Phone no.	

SCHEDULE A
(Form 1040)

Itemized Deductions

OMB No. 1545-0074

2016

Attachment
Sequence No. **07**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Clark B Williams

Your social security number
555-12-3456

Caution: Do not include expenses reimbursed or paid by others.

Medical and Dental Expenses	1 Medical and dental expenses (see instructions)	1	1,000	4
	2 Enter amount from Form 1040, line 38 2	48,570		
	3 Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3	4,857	
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		0	
Taxes You Paid	5 State and local (check only one box): a <input checked="" type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes	5	1,200	9
	6 Real estate taxes (see instructions)	6		
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ►	8		
	9 Add lines 5 through 8		1,200	
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10		15
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11		
	12 Points not reported to you on Form 1098. See instructions for special rules	12		
	13 Mortgage insurance premiums (see instructions)	13		
Gifts to Charity	14 Investment interest. Attach Form 4952 if required. (See instructions.)	14		19
	15 Add lines 10 through 14			
	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	6,700	
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
Casualty and Theft Losses	18 Carryover from prior year	18		20
	19 Add lines 16 through 18		6,700	
	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)			
	21 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instr.) ►	21		
Job Expenses and Certain Miscellaneous Deductions	22 Tax preparation fees	22		27
	23 Other expenses - investment, safe deposit box, etc. List type and amount ►	23		
	24 Add lines 21 through 23	24		
	25 Enter amount from Form 1040, line 38 25	25		
Other Miscellaneous Deductions	26 Multiply line 25 by 2% (0.02)	26		28
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			
	28 Other - from list in instructions. List type and amount ►			
	29 Is Form 1040, line 38, over \$155,650? <input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		7,900	
Total Itemized Deductions	30 If you elect to itemize deductions even though they are less than your standard deduction, check here ►			

For Paperwork Reduction Act Notice, see Form 1040 instructions.

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Schedule A (Form 1040) 2016

**SCHEDULE C-EZ
(Form 1040)****Net Profit From Business**

OMB No. 1545-0074

2016Attachment
Sequence No. **09A**Department of the Treasury
Internal Revenue Service (99)
Name of proprietor

- Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
- Attach to Form 1040, 1040NR, or 1041. ► See instructions.

Clark B WilliamsSocial security number (SSN)
555-12-3456**Part I****General Information**

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

- Had business expenses of \$5,000 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 either a sole proprietor, qualified joint venture, or statutory employee,

And You:

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

A Principal business or profession, including product or service**Minister****C Business name. If no separate business name, leave blank.****B Enter business code (see page 2)****► 541990****D Enter your EIN (see page 2)****E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.****123 Main Street**

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

Anytown, NJ**F Did you make any payments in 2016 that would require you to file Form(s) 1099? (see the Instructions for Schedule C)** Yes No**G If "Yes," did you or will you file required Forms 1099?** Yes No**Part II Figure Your Net Profit**

1 Gross receipts. 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, and check here ►

1 1,200

2 Total expenses (see instructions). If more than \$5,000, you **must** use Schedule C

2

3 Net profit. Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Form 1040, line 12, and Schedule SE, line 2**, or on **Form 1040NR, line 13, and Schedule SE, line 2** (see instructions). (Statutory employees **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3**

3 1,200**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)**

► _____

5 Of the total number of miles you drove your vehicle during 2016, enter the number of miles you used your vehicle for:**a Business** _____ **b Commuting (see instructions)** _____ **c Other** _____**6 Was your vehicle available for personal use during off-duty hours?** Yes No**7 Do you (or your spouse) have another vehicle available for personal use?** 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 the separate instructions for Schedule C (Form 1040).

Schedule C-EZ (Form 1040) 2016

EEA

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

OMB No. 1545-0074

2016

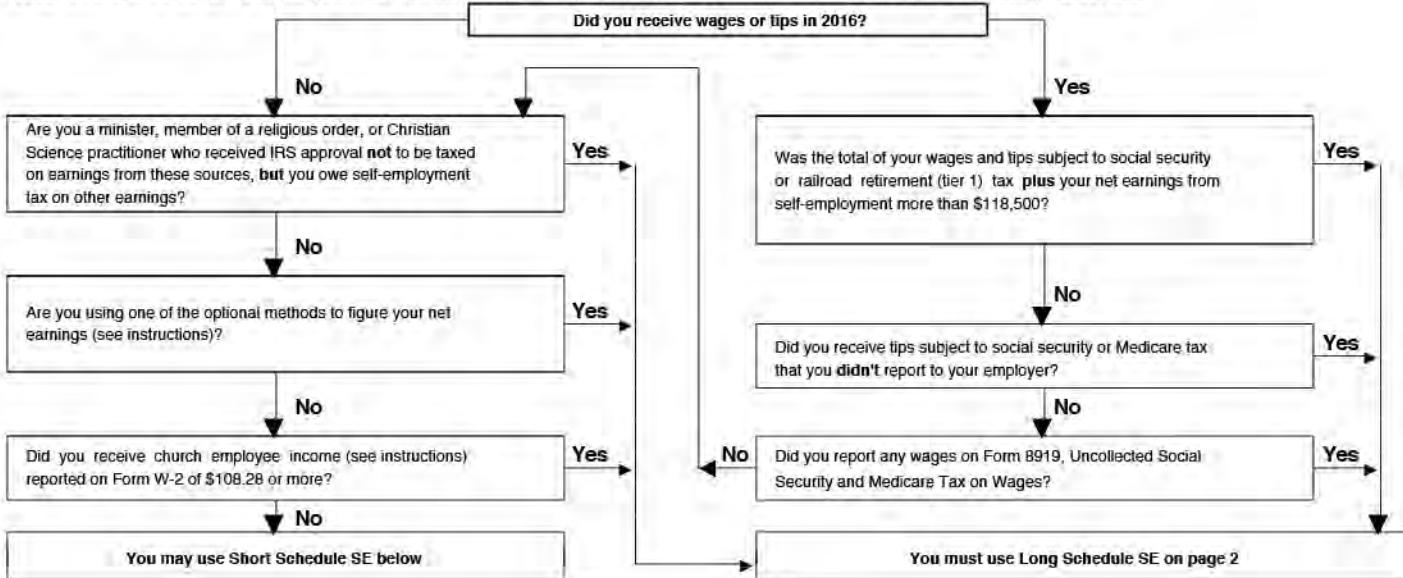
Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040 or Form 1040NR) Clark B Williams	Social security number of person with self-employment income ►	555-12-3456
--	--	--------------------

Before you begin: To determine if you must file Schedule SE, see the instructions.

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

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A - Short Schedule SE. Caution.

Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report.	2	112,358
3 Combine lines 1a, 1b, and 2	3	112,358
4 Multiply line 3 by 92.35% (0.9235). If less than \$400, you do not owe self-employment tax; don't file this schedule unless you have an amount on line 1b	4	103,763
Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5 Self-employment tax. If the amount on line 4 is:		
• \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55		
• More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	15,876
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	7,938

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

Schedule SE (Form 1040) 2016

EEA

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About the Principal Editors

The Rev. Canon William F. Geisler, CPA-Retired, holds an A.B. from Harvard College and an M.B.A. from the Harvard Business School. He was ordained in 1968. He has served as a trustee of Grace Cathedral both as a lay person and a cleric. He was Controller for the Diocese of California for 31 years. His private practice specialized in consulting and tax. He has served as treasurer of the Conference of Diocesan Executives, and a member of The Church Pension Fund Committee on Medical Insurance. He is a tax and financial consultant on clergy and churches for The Church Pension Fund, is one of the editors of this annual *Tax Guide for Episcopal Ministers* as well as *Federal Reporting Requirements for Episcopal Churches*, and has been a presenter at various clergy financial planning seminars and parish financial leadership trainings for over 30 years. He has provided assistance via the Tax Response phone line since its inception.

Nancy N. Fritschner, CPA, is a CPA with a particular interest in clergy taxes as she is a clergy spouse. Nancy graduated from the University of Kentucky with a B.S. in Accounting and has worked for various CPA firms in Kentucky, Tennessee, South Carolina, and Alabama. She taught accounting at The University of the South and has been a finance faculty member of CREDO for over 10 years. Nancy has developed and presented courses on clergy taxes and church accounting for national and diocesan church events and for the Office of Professional and Continuing Education at Auburn University. She currently lives in Louisville, Kentucky.

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Throughout this document, tax examples are given that include fictional first names of clergy, lay employees, and parish names. The names for the persons and places in these examples were chosen at random and do not refer to any particular clergy, lay employees, parishes, or institutions of the Episcopal Church.



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