2017 Tax Reform Act

Most changes do not go into effect until 2018 tax year.
This Tax Act does not affect clergy housing allowance.

Increases Standard Deduction

• $12,000 single
• $24,000 couples
• $18,000 head of household
• Plus, $1,250/person 65+
  • $1,550 if unmarried
• No longer personal exemption
Personal Residence Changes

• Mortgage interest deduction limited to mortgages under $750,000 for primary residence and second home
• Primary residence property tax as well as state income and sales tax deduction limited to $10,000
• Deduction for moving expense gone
  • Except for military

Miscellaneous Deductions

• All previously subject to 2% AGI are eliminated.
  • Employee Business Expense
  • Tax preparation fees
  • Safe Deposit Fees, etc

Child Tax Credit

• Increased to $2,000/child under 17
• New $500 credit for each dependent not a qualifying child
### 7 Tax Brackets - Individuals

- 10%, 12%, 22%, 24%, 32%, 37%
- Most will be in 12%
  - Up to $77K taxable income for married
  - Up to $38,700 for singles
- The 22% bracket begins with taxable income above these levels

### Other Changes

- Most estates will be exempt from Estate Tax
- Individual Mandate for health insurance eliminated (starting in 2019 tax year)

### Let’s Take a Poll:

- Where are you on the journey?
  - Age 20-39?
  - Age 40-59?
  - Age 60+?
Clergy Taxes & Finances Are Unique

• Limited Income
• Other income is self-employment income
• Employee and self-employed
• Itinerancy
• Spouse’s job possibilities challenged

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Clergy Taxes & Finances Are Unique

• Limited investment for housing
• Living in parsonage is taxable
• Gifts from church are taxable
• Estimated tax payments instead of withholding

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Clergy Taxes are Different than Laity

✓ Strategic Tax Planning
• Begins with your compensation plan
• Must be in place before you receive your pay
• Every clergy can have a housing allowance
• Everyone can make contributions to the Pension (UMPIP)
• Everyone has business expenses
Clergy Taxes are Different than Laity

Strategic Tax Planning

- Housing
- Parsonage
- Or Furnishings Allowance
- Every Clergy Person should have a housing allowance

The Parsonage Allowance

Internal Revenue Code #107 provides an exclusion from gross income for a ‘parsonage allowance,’ housing specifically provided as part of the compensation for the services performed as a minister of the gospel.

This includes:

- The rental value of a home furnished as part of compensation
- Or a housing allowance to provide a home including furnishings and appurtenances (i.e. garage) and the cost of utilities (maintenance and repair of such)
- A minister can receive a parsonage allowance for only one house
- It must be approved annually and in advance of using the allowance
How much is a housing allowance?

The lesser of:
- The amount actually used to provide a home,
- The amount officially designated as a housing allowance, or
- The fair rental value of the home, including furnishings and appurtenances, plus the cost of utilities, maintenance, and repairs (including supplies)
- May not include food or maid services.

Housing allowance plus deductions

Even though a housing allowance used to pay mortgage interest and property taxes is excluded from gross income, those deductions are still allowed as Schedule A deductions from income.

Retired Clergy

- Funds received from the church’s pension program are considered housing allowance and are not taxable income to the extent spent.
- Also, pension income is not taxable for Social Security or self-employment tax purposes
Business-related Expenses

- Much of clergy life is business related
- Keep a log of what you do, mileage used, and money spent
- Funds reimbursed in an accountable reimbursement plan is not taxable income (nor is it a deduction)
- All clergy have expenses not reimbursed

Business-related Expenses

- Is it a business event
- Is the expense deductible
- Do I have a receipt / record of payment
- Your contribution to the church is not a business deduction

Pension Contribution

- Clergy participate in personal pension plan (UMPIP)
- Contributions, deducted from your compensation, and paid by the church to the Board of Pension is not taxable income for income tax or self-employment tax
- May contribute $18,000 (plus $6,000 if over 50) per year from your compensation
It Adds Up and Makes a Difference

Example #1
$42,000 Salary
- $12,000 Housing allowance
- $3,600 Pension contribution
$26,400 taxable compensation for income tax purposes

It Adds Up and Makes a Difference

Example #1
If in a 15% tax bracket
Save $2,340 Income tax
$540 Pension contribution
$2,880 Savings on income tax

It Adds Up and Makes a Difference

• Example #2
• Self-employment Tax
  Taxable income
  Plus housing allowance
  Minus unreimbursed business expenses (use IRS form 2106)
Example #2
Self-employment tax

26,400 taxable income
12,000 housing allowance
-3,400 less unreimb. business exp.
35,000 income taxable for self-employment tax (15.3%)

Estimated Tax Payments

Clergy should pay ¼ of their total estimated tax due by:

April 15
June 15
September 15
January 15 (of the following year)
Financial Planning Is Imperative

- Start with a spending plan
- Money you save from taxes should be spent on
  - Building an emergency fund
  - Reducing debt
- Money earned outside of the local church should be spent according to your plan

Questions?

Thank You!
UPCOMING WEBINARS

Thursday, May 9, 2019, 6:30PM CDT
Going Mobile to Fund Our Mission
The statistics are astounding! 95% of Americans own a cellphone, with 77% owning smartphones. 80% of social media time is spent on mobile devices, and users of online media spend on average 69% of their media time on a smartphone. How is your church communicating your funding?

Thursday, July 18, 2019, 6:30PM CDT
When Is It Time to Talk About Money?
Jesus spoke about money and possessions more than most any other topic, yet he didn’t do it in the context of fundraising. His concern was that those things not get in the way of our relationship with God. How can we talk to people about the importance of handling money well, at a time when we are not asking them to complete a pledge card? Join us as we explore new ways to have these kinds of “money talks” as well as when we are looking for commitments.

www.umcdiscipleship.org/webinars

Handouts of these Slides
Email: kslane@UMCdiscipleship.org

www.Facebook.com/UMCStewardship
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