

Clergy – Taxes – Payroll and Tax Reporting

Since 1989, the completion of **Form I-9**, which verifies a person's eligibility for employment, has been required for all employees, including all compensated clergy. This is standard operating procedure for the churches in the Diocese of Virginia and is covered in the [Manual of Business Methods in Church Affairs](#).

For those churches and institutions availing themselves of a payroll service, especially the Episcopal Church payroll service, the completion of a Form I-9 is required for the use of the service. Many questions on the Episcopal Payroll Service can be answered through this link:

<https://www.cpg.org/administrators/payroll/payroll-services/?ref=flyouts>

Likewise, each compensated employee should have a **Form W-4** completed prior to being paid. The Form W-4 is a short form in which each employee indicates the desired tax withholdings for the coming year. The Form W-4 should be revised if an employee's personal circumstances change.

All employees of a church institution should receive a Form W-2. This includes all clergy with the exception of supply clergy. Supply clergy should receive a **Form 1099** at year-end for the total of the compensation paid to them in the prior year. **ONLY** supply clergy should receive a Form 1099.

Clergy – Taxes - Social Security and Self-Employment Tax

Clergy compensation is a taxation hybrid and can present challenges regardless of where a priest may serve. In the Diocese of Virginia, clergy compensation should include an amount equal to 7.65% of total compensation, which represents one-half of the self-employment tax rate up to the ceiling (\$137,000 for 2020) for Social Security. The Medicare portion of this tax is 1.45%, which does not come under any ceiling. The SECA contribution by the church is fully taxable income for the cleric. This amount is also included in the sample pension calculations as shown in the chart on the prior page.

The ceiling is published in IRS Publication 517, "Social Security and Other Information for Members of the Clergy and Religious Workers." The IRS publishes this document in January. When issued, a revised set of these guidelines will be posted to the diocesan web page.

PLEASE NOTE: The Internal Revenue Code states self-employment tax (SECA) is payable on cash salary, a utility allowance, and the parsonage ("housing") allowance OR the value of housing provided by the church employer. Federal income tax is also payable on that portion of a parsonage allowance not otherwise used to provide the housing ("excess allowance").