

Clergy – Taxes – Payroll and Tax Reporting

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CPG offers two rich sources of information for clergy and their employers at their [Tax Publications Page](#). These include a tax preparation guide for clergy and a federal reporting guide for employers. Each are updated annually.

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 using a payroll service, especially the [Episcopal Payroll Service](#) via ADP, the completion of a Form I-9 is required to add an employee.

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 *except those serving as supply*. 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, the norm is to include a SECA allowance equal to 7.65% of total compensation up to the ceiling (\$137,700 for 2020) for Social Security. This allowance represents one-half of the self-employment tax rate. The Medicare portion of this tax is 1.45%, which is not subject to a 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.

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”).