

2019

## Oregon-Idaho Conference

### Payroll Tax Guidelines for Clergy appointed to serve as Pastor of Local Church

Processing payroll for a clergyperson appointed as pastor of a local church is slightly different from processing payroll for lay employees.

Clergy persons are considered employees for Federal and State Income tax purposes and self-employed for Social Security/Medicare purposes, they are eligible for Housing and Utilities & Furnishings allowances which are not included in income tax calculations, and, in Oregon, although they are subject to Unemployment Tax, they are covered by a bond provided by the conference, so their wages are not included on the local church Unemployment Tax report.

**Federal Unemployment Tax (FUTA):** Churches are exempt from FUTA.

**Federal Tax:** Local churches are not required to withhold income tax for clergy. However, the local church may voluntarily withhold income taxes at the request of the clergy.

The tax rate is determined from Tax Tables in IRS Publication 15 Circular E, Employer's Tax Guide. (Note: Housing Allowances, Utilities & Furnishings Allowances, Medical Reimbursement and Pension Pre-Tax Salary Reduction amounts are not included in taxable amount.)

Withheld from employee check, deposited to IRS on form 941 – see instructions in Circular E booklet – or online at [www.irs.gov](http://www.irs.gov).

*(Generally – deposited quarterly with form 941 if total of Federal, Social Security and Medicare are less than \$2,500 for the quarter, or deposited monthly if total is more than \$2,500 and less than \$50,000 for the year. See IRS Publication 15 for details or if total is more than \$50,000 for the year.)*

**Social Security & Medicare (FICA):** Clergypersons are considered self-employed for Social Security and Medicare purposes and must pay SECA taxes. Churches may not file FICA taxes for clergypersons.

**Form 941:** The IRS has advised us by letter that churches that have no other employees except the pastor – and the pastor has not elected to voluntarily have Income Taxes withheld - are not required to file the IRS Form 941. There is a copy of this letter on our website.

If you do have one or more lay employees, or if your clergyperson has elected to have Income Tax withheld, then you must file a quarterly IRS Form 941 and include the salary of the pastor. The total income reported in Box #1, for all the local church's Form W-2s (lay and clergy), must equal the grand total taxable income as shown on the combined totals of the quarterly IRS Forms 941, line #2 (except in those cases where no Form 941 is required).

**State Tax:** Local churches are not required to withhold income tax for clergy. However, the local church may voluntarily withhold income taxes at the request of the clergy.

The tax rate is determined from tax tables from State Department of Revenue. (Note: Housing Allowances, Utilities & Furnishings Allowances, Medical Reimbursement and Pension Pre-Tax Salary Reduction amounts are not included in taxable amount.)

Withheld from employee check, deposited to State.

*(Generally – deposited quarterly with Oregon form OQ or Idaho form 910.) If Federal taxes require more frequent deposits (see above) state taxes must be filed accordingly)*

**SUI (State Unemployment Insurance):**

**Idaho Churches:** As of this writing, churches in Idaho are exempt from Idaho State Unemployment Insurance.

**Oregon Churches:** Churches are not exempt from Oregon State Unemployment Insurance. However, the Conference reports salaries for clergy serving as pastors of local churches as part of the itinerant system. (NOTE: This does not apply to Lay Supply Pastors or Deacons. See Payroll Tax Guidelines for Lay Supply Pastors and other lay employees).

**DO NOT INCLUDE CLERGY SALARIES ON YOUR OREGON STATE UNEMPLOYMENT INSURANCE TAX REPORT (SUI).** Do include clergy hours for the Worker's Benefit Fund Assessment Tax (see below).

**Oregon Workers Benefit Assessment Tax:** (Oregon only)

2019 tax rate: 0.024 times number of hours worked. One half (0.012) is withheld from the employee's check and matched by employer contribution of (0.012) times number of hours worked, deposited to State with State tax withholding (if any) and SUI (for churches with lay employees).

**Worker's Compensation Insurance:**

All churches are required to have worker's compensation insurance for all employees (clergy and lay.) Contact the State Insurance Commission or Insurance Company (Liberty NW, SAIF) for policy details.

*Local numbers for IRS, Social Security Administration, and State Department of Revenue are listed in the government pages of your local phone book. Most also have helpful internet web-sites. Also see the state Bureau of Labor and Industry website for other helpful information.*