



Payroll Withholding Taxes

A Quick Reference Guide for Churches

Taxable =

Ordained Staff

Base Salary

- Federal¹
- State
- Local
- FICA/Med.²

Housing

- Federal
- State
- Local³
- FICA/Med.

SECA, Medical, Expenses

- If included in payroll⁴
 - Federal
 - State
 - Local *
 - FICA/Med.

Lay Employees

Base Salary

- Federal
- State
- Local
- FICA/Med.²

Bonuses, Severance Pay, etc.

- Federal
- State
- Local
- FICA/Med.

Expense

- If included in payroll⁴
 - Federal
 - State
 - Local
 - FICA/Med.

Please see the next page for notes on withholding for ordained staff.

1. Exemption from Federal Income Tax Withholding.

Ministers' compensation is exempt from income tax withholding whether a minister reports his or her income taxes as an employee or as self-employed. Therefore, a church should not withhold income taxes from the salary of a minister who is an employee for income tax reporting purposes. However, ministers who are employees for income tax reporting purposes can elect "voluntary withholding" of income taxes by submitting a Form W-4 to their church. The filing of this form is deemed to be a request for voluntary withholding. Voluntary withholding arrangements can be terminated unilaterally by either a minister or the church, or by mutual consent. This exemption is for the withholding of taxes only – ministers are still responsible for paying federal income taxes, and employers are still responsible for submitting any federal payroll taxes that are withheld.

2. FICA and Medicare Taxes

Ministers are always self-employed for Social Security purposes with respect to their ministerial services, and accordingly they pay the "self-employment tax" rather than the employee's share of Social Security and Medicare taxes — even if they report their federal income taxes as an employee. It is incorrect for churches to treat ministers as employees for Social Security purposes, and to withhold the employee's share of Social Security and Medicare taxes from their wages.

3. Housing Allowance in the State of Pennsylvania

The housing allowance for all pastors is considered tax exempt for local taxes within the Commonwealth of Pennsylvania. Do not include the housing allowance portion of the gross payroll amount for calculating the appropriate local tax for you ordained employees. This rule only applies to the local income tax rates and does not exclude ordained staff from the Local Services Tax, or LST.

4. Reimbursements

If your church has elected to offer a SECA (Self Employment Contributions Act) reimbursement to any of your ordained staff, you must treat this taxable compensation for federal, state and local taxes. It is highly recommended that any expense allowances, continuing education allowance, or medical allowance be paid to any employee on an accountable reimbursement basis only. If you include these payments to any employee as an allowance or as an advance, the payments will must be treated as taxable income. It is further recommended that you should adopt an Accountable Reimbursement Polity that includes an acknowledgment page that requires all employees, ordained or not, to sign indicated that they have read and understand the policy. Expenses paid out to any employee on a reimbursable basis are not taxable for federal, state, or local taxes.