

What Changes When One is Ordained as a Minister?

Having "minister" in one's title is not enough. The individual must be ordained, licensed or commissioned as a minister, then have the duties and relationship to the employer that are those of a minister. (See document "Who is a "Minister" for Tax Purposes?") If not ordained, licensed or commissioned as a minister, then the individual is NOT a minister for tax purposes, no matter what title or duties they have.

Once one is ordained, licensed or commissioned as a minister, some things change regarding their finances. The chart below outlines some of the general differences for employees serving in Southern Baptist churches.

	For NON-MINISTERS (Including ministers that are not ordained, licensed or commissioned as a minister)	For MINISTERS (Ordained, Licensed or Commissioned Ministers employed in a ministry position)
Employment Tax Status	Employee for Income Purposes Employee for Social Security Purposes	Employee for Income Purposes (Ministers should get a W-2 form, even though exempted from REQUIRED income tax withholding. See document on IRS reporting requirements for instructions on completing a W-2 form for a minister.) Self-Employed for Social Security
Social Security	Non-Ministers are on regular FICA social security. 7.65% of their taxable compensation is withheld and the employer (church) matches that with another 7.65% for a total of 15.3%.	Ministers pay the full 15.3% SECA social security, (However, most ministers pay closer to 13% due to a 7.65% reduction in the amount subject to SECA and through being able to deduct half of the SECA tax from their income subject to income tax.)
Withholding	Non-Ministers are subject to income tax and social security tax withholding.	Ministers are exempt from required tax withholding. However, they may do voluntary " income tax withholding ". They can also over-withhold on their income tax sufficiently to cover their social security self-employment. NOTE: Under no circumstances should a church ever send money to the IRS for a minister that is labeled as FICA social security.
Housing Allowance	Non-Ministers generally do NOT qualify for tax free Housing. If a church provides a housing allowance for the minister it should be included in taxable income, the same as salary. If the church provides a home for a minister who is not ordained, licensed or commissioned, the fair rental value of that home and any utilities paid by the church should be included in taxable income, the same as salary.	Ministers Qualify for tax free Housing. See the document regarding housing for ministers for more detail. Note: The minister's housing is tax free for income tax purposes, but it is subject to the Self Employment Social Security Tax.
Tax Deferred Retirement Contributions	Contributions non-ministers make to their retirement plan by means of salary reduction may be tax deferred for income tax. Those contributions ARE subject to social security tax.	Contributions a minister makes to their retirement plan by means of salary reduction may be tax deferred for income. Those contributions are NOT subject to Self-Employment Social Security tax. (This difference may also mean that Roth contributions toward retirement are less advantageous for a minister.)