



THE PACIFIC NORTHWEST CONFERENCE
of The United Methodist Church

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To: Local Church Treasurers – **PASS TO WHOEVER PROCESSES YOUR W-2's**
Local Church Pastors

Re: Form W-2 for Ministers for 2021

This letter is designed to assist local church treasurers in the preparation of the IRS Form W-2 for clergy. It specifically addresses the unique requirements applicable to clergy. Lay employees also must receive the appropriate W-2. Call if you have questions about this.

If needed be sure to order your supply of Forms W-2 and W-3 from the IRS immediately. Also, request a copy of the Instructions. Order by phone: 1-800-829-3676 from the IRS - free! Review the Instructions for Form W-2 from the IRS carefully. Some forms and/or instructions are available online at www.irs.gov/orderforms

W-2 forms must be provided to the minister (and any lay employees) by January 31, 2022 and the Copy A must be filed with the transmittal form W-3 also by January 31, 2022

Here are some specific pointers to assist you in completing the form W-2. The last page is an example that should also answer most of your questions.

Box 1: (Wage and Other Compensation) Include in this Box:

1. Cash Salary, including any Social Security allowance.
2. Gifts or bonuses paid by or through the church
3. Reimbursements for expenses that are in excess of the IRS allowable mileage rates.
4. Moving Expenses must be included as taxable income whether paid directly to a third party or reimbursed to the pastor.

Box 1: continued

DO NOT INCLUDE as income in Box 1 :

- Housing, utilities, furnishings allowances or exclusions properly designated in advance.
- Salary reduction “before tax” pension (UMPIP) payments to the Conference Treasurer. - You do report these in Box 12 and use code “E”
- Contributions by the Plan and clergy to a Health Savings Account also known as an (HSA) - You do report these in Box 12 and use a code “W”
- Salary reduction payments made by the local church for Medical Reimbursement and/or Dependent Care Account. – You do report these amounts in Box 10
- Accountable Reimbursement Plan payments.

While this covers most items you encounter, it is not an exhaustive list. For specific items not noted contact your tax advisor, the IRS, or our office.

Box 2: (Federal Income Tax Withheld)

Local churches are not required to withhold income taxes but may elect to do so. If done, enter amount withheld; otherwise, leave blank. (You should have received a completed form W-4 from the minister if you withheld income tax.)

Box 3, 4, 5, and 6 are to be left blank as clergy are treated as self-employed persons

Box 7, 8, and 9 are not applicable.

Box 10: (Dependent Care Benefits)

If the local church made payments to the Conference Treasurer for Dependent Care, the amount of such payments are recorded here. The pastor’s contributions thru payroll withholding are not reported on the W-2

Box 11: (Payments to non-qualified plans)

Not applicable to most clergy. Does not apply to amounts contributed for Pension and Health Benefits or other 403 (b) pension plans.

Box 12: Report in these boxes the proper codes and amounts of clergy benefits.

The following codes are most typical for local churches to use (*See IRS W-2 instructions for a full listing.*)

Code “BB” - Include the amount of voluntary 403(b) designated Roth (UMPIP “After-Tax” contributions). This amount is **included in Box 1**

Code “E” - Include the amount of voluntary 403(b) pension salary reduction (UMPIP “Before-Tax” contributions). This amount is **not included in Box 1**.

Code “W” - If the minister elected a medical plan that included a Health Savings Account (HSA) then include the amount contributed by the minister *plus* the amount contributed by the Plan. These amounts are **not included in Box 1. You will receive a separate mailing with the amount contributed by the Plan, if applicable.**

Box 13: Mark the box for Retirement Plan for a minister for whom the church made pension payments to the Conference Office.

Box 14:

Some publications suggest reporting housing allowance here. It is not required; therefore, we do not recommend it be done.

Other Special Information

- It is **important** that the total income reported in Box 1 for **all** the local church's Form W-2 for lay and clergy together should have the same grand total taxable income as was reported on the combined totals of the quarterly IRS Form 941 line 2 (except in those cases where no Form 941 is required). The IRS has advised us by letter that churches that have no employees other than the minister are **not** required to file the IRS Form 941. Good news! Adjustments if needed may be made on the 4th quarter report due by January 31. Otherwise, no corrections are possible.
- Here is some miscellaneous information about pensions and IRS reporting. Local church payments made for the CRSP (Clergy Retirement Security Program) Church Account are **not** included as pastor's compensation. Contributions sent by the local church designated for the pastor's UMPIP (United Methodist Personal Investment Program) account may be classified as "before tax" or "after tax" depending on how the money was designated on the transmittal document. If they were designated as Roth "after tax", then they are considered part of taxable income that is included in Box 1 of the W-2 and must also be included as a code "BB" in Box 12. If the contributions were sent designated as "before tax" they are not included in Box 1 and must be included as a Code "E" in Box 12.

Please let me know if you have any questions regarding these matters.

Yours truly,

Brant

Brant Henshaw
Conference Treasurer

"This information is based on my best understanding of the applicable law but is intended to be general guidance, not legal or tax advice. If legal or tax accounting advice is required, the services of a competent professional advisor should be sought"

**** SEE REVERSE SIDE FOR SAMPLE W-2****

W-2 EXAMPLE FOR DEMONSTRATION

1. Pastor Smith was appointed to a new church at Annual Conference and the local church reimbursed her for **moving expenses**. The pastor spent \$2,123. The new church reimbursed her. that amount is reported on the W-2 in box 1. Even if the church paid the costs directly to a moving company, the cost is reported on the W-2 in box 1. Any subsidy from the Conference has no impact on this aspect either.
2. The local church established an **Accountable Reimbursement Plan (ARP)** and during the year reimbursed the pastor \$2,149 for travel and professional expenses. Since the expenses were properly documented with receipts and notations of the business purpose, this amount is excluded from taxable income.
3. Here are the details of the pastor's compensation:

Total cash remuneration paid to the pastor	\$45,000
Moving costs reimbursed to the pastor	\$ 2,123
Housing allowance designated by the church	(\$15,000) do not report on W-2
Before tax pastor contribution to UMPIP (pension)	(\$1,600) report-Box 12 code E
HSA contribution by pastor	(\$1,800) report-Box 12 Code W
Pastor contribution to a Medical Reimbursement Account	<u>(\$ 600)</u> do not report on W-2
TAXABLE INCOME ON BOX 1 on the W-2	\$28,123

Notes:

1. Reporting the housing allowance on the W-2 is optional, but not required. Use Box 14 if the pastor requests and the church agree to do it.
2. The Retirement Plan box should be checked in Box 13.
3. In this example the Health Plan contributed \$750 to the pastors' HSA. This should be reported with his \$1,800 contribution in box 12 with a code W (\$1,800+\$750 = \$2,550)
4. If the pastor pays for the excess cost for health insurance above the defined contribution (DC) it is done through a salary reduction and reduces taxable income in Box 1. It is not reported on the W-2.
5. If the pastor had designated "Roth" after tax UMPIP contributions that amount would not reduce Box1 income and would be reported in Box 12 with a code B
6. If the pastor had designated "Roth" after tax UMPIP contributions that amount would not reduce Box 1 income and would be reported in Box 12 with a code B

2222		a Employee's social security number 123-45-6789		OMB No. 1545-0008	
b Employer identification number (EIN) 91-1234567			1 Wages, tips, other compensation 28123.00		2 Federal income tax withheld
c Employer's name, address, and ZIP code First United Methodist Church 1515 Center Street Anywhere, WA 98555			3 Social security wages		4 Social security tax withheld
			5 Medicare wages and tips		6 Medicare tax withheld
			7 Social security tips		8 Allocated tips
d Control number			9		10 Dependent care benefits
e Employee's first name and initial Pat Smith		Last name Smith	11 Nonqualified plans		12a E 1600.00
f Employee's address and ZIP code 555 1st Avenue Anywhere, WA 98555		13 <input type="checkbox"/> Statutory employee <input checked="" type="checkbox"/> Reimbursed plan <input type="checkbox"/> Third-party sick pay	12b W 2550.00		12c
		14 Other		12d	
g Employee's address and ZIP code			15 State Employer's state ID number		16 State wages, tips, etc.
15 State Employer's state ID number			17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality rate