



Memo

Date: November 14, 2016

To: Pastors, Deacons and Business Managers

From: Michael Warren, Controller, Office of Finance

Re: Reclassification of Salary as a Housing Allowance –
Permanent Deacons Only

This document and the attachments are updated guidance on the process for Permanent Deacons to consider and decide upon, annually, whether to reclassify a portion of their salary, as allowed for all clergy per the IRS tax rules as a Clergy Housing Allowance. The term "Housing Allowance" is only an IRS-defined term, as the Archdiocese of Atlanta does not have any such defined allowance within our compensation program.

Each deacon should consult with a tax professional to determine whether or not to pursue this payroll reclassification. The amount of salary to be reclassified is income tax free, but is not social security tax free, and in addition, requires the deacon to pay both employer and employee portions of social security on his entire compensation, not just on the exact reclassification amount. See the attached example of the associated IRS forms.

If a deacon does elect to reclassify a portion of his salary, the election is good for one year, and must be renewed each year. Further, it needs to be dated and submitted to Human Resources prior to the beginning of the new year, per the IRS.

Please see the attached documents and IRS form examples. If you have any questions, please email MWarren@archatl.com or call 404-920- 7411. Thanks.

Reclassification of Salary/Wages as a Housing Allowance - Permanent Deacons Only

The Archdiocese of Atlanta has many paid, part-time and full-time, positions for which being an ordained Deacon is neither a qualifying nor a disqualifying factor. Many of these positions have a ministerial or pastoral component to the work. Compensation and benefits for these positions are administered under the direction of the Human Resources Department.

If an ordained Deacon fills one of these positions, then the Deacon should evaluate his options under the Internal Revenue Code §107. By nature of being a member of the clergy, the IRS rules allow a portion of salary or wages to be reclassified as a Housing Allowance. This reclassification provides an income tax advantage but adds self-employment tax and reporting burdens. Each individual should consult with a tax professional to determine whether or not to pursue this reclassification.

For guidance, please search the IRS website (www.irs.gov) for the following:

- Topic 417 - Earnings for Clergy
- Ministers' Compensation & Housing Allowance
- Minister Audit Technique Guide

Another source of information on this topic is a booklet, *Tax Manual for Deacons*, published by Scott Hoselton.

Limits: The reclassification of a portion of a Deacon's compensation as a Housing Allowance is limited to the lowest of the following four restrictions:

1. \$3,000 per month or \$36,000 per year, or
2. the fair rental value of the residence, or
3. the actual expenses incurred in providing for the residence, or
4. 100% of the salary/wages for the position.

For those who choose to elect the reclassification, the process to do so is as follows:

Each calendar year, each Deacon is responsible for providing the Human Resources Department (HR) with a written request to reclassify a portion of his salary/wages as a Housing Allowance. The Deacon should complete the *Request to Reclassify a Portion of Salary/Wages as a Housing Allowance Form* and submit it to HR, before year end. HR will review the form for completeness and compliance with the limits. When the review is finished, the form will be forwarded to the appropriate payroll location and a copy maintained in the Deacon's personnel file.

Attached is a completed IRS Schedule SE (Self-Employment Tax) which provides an example of where the housing allowance AND computation of the SECA insurance are computed and payable by any Deacon electing to receiving a portion of their salary/wages as a housing allowance.

Compensation for positions in the Archdiocese is paid via the payroll system. In the payroll system, the reclassification of a portion of payroll as a Housing Allowance is made through earnings code "HM". The Housing Allowance will be reported to the IRS in Box 14 of the annual W-2. For assistance, contact Jeffery Dean at JDean@archatl.com

Request to Reclassify a Portion of Salary/Wages as a Housing Allowance Form

To: Archdiocesan Human Resources Department

From: Deacon _____

Date: _____

Work Location: _____

Position: _____ Full or Part time _____

Annual Salary/Wages (before any reclassification):\$ _____

Please accept this as my request to reclassify a portion of my salary/wages as a Housing Allowance in the amount of \$ _____. This reclassification is within limits defined below, and is made pursuant to Internal Revenue Code Section 107. I represent that I am a Qualified, Ordained, Licensed or Commissioned Minister of the Gospel, pursuant to Internal Revenue Code 107 and the regulations set forth in the Internal Revenue Code. I understand that this reclassification will require me to file Schedule SE (Self-Employment Tax) with my Federal Income Tax Return.

I am completely qualified to elect to reclassify salary/wages as a Housing Allowance based upon the qualification of an Ordained Minister of the Gospel and I certify that I have performed the sacerdotal functions of an Ordained or Licensed Minister for the previous year.

Annual \$ Amounts

House Payment (Principal & Interest) or (Rent)	\$ _____
Real Estate Taxes	\$ _____
Insurance (Contents)	\$ _____
Insurance (Structure, i.e., fire, liability)	\$ _____
Repairs & Upkeep	\$ _____
Utilities (Heat, electric, gas & water & Sewer)	\$ _____
Garbage Service/Pest Control	\$ _____

Alarm/ Cable TV, Lawn Care, Other \$ _____
Other/ Roof/ HVAC/Capital Repairs \$ _____
Total Annually \$ _____
Total Monthly \$ _____
Fair Rental Value- Annual (indicate source of data) \$ _____

Signature: _____ Date: _____

Last 4 digits of SSN XXX-XX- _ _ _ _

Limits: Lowest of (check one):

- ☐ \$36,000 per year
- ☐ Fair Rental Value
- ☐ Prior Year Actual Cost
- ☐ 100% of Salary

HR Use Only:

Reviewed By: _____ Date sent to Payroll location _____

Last Revised 11/8/2016

22222		Void <input type="checkbox"/>		a Employee's social security number		For Official Use Only ► OMB No. 1545-0008			
b Employer identification number (EIN)				1 Wages, tips, other compensation 18,000.00		2 Federal income tax withheld (Amount W/held)			
c Employer's name, address, and ZIP code Sample Deacon				3 Social security wages 18,000.00		4 Social security tax withheld			
				5 Medicare wages and tips 18,000.00		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		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b			
				14 Other 6,000.00 Housing Allowance Other (Not Classified)		12c			
						12d			
f Employee's address and ZIP code									
15 State	Employer's state ID number		16 State wages, tips, etc. 18,000.00	17 State income tax (Amount W/held)		18 Local wages, tips, etc.		19 Local income tax	20 Locality name

This example assumes deacon compensation of \$24,000 with documentation that supports \$6,000 as the lowest of the four restrictions:

Limit vs. FMV vs. Actual vs. 100% of salary

For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number
Sample Deacon Example: This assumes Deacon compensation of \$24,000 and documentation that

If a joint return, spouse's first name and initial Last name Spouse's social security number
supports \$6,000 as the LOWEST of 4 limits (Limit vs. FMV vs. Actual vs. 100% of Salary)

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. **▲ Make sure the SSN(s) above and on line 6c are correct.**

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/county Foreign postal code
Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status 1 ☐ Single 4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. **►**
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. **►** 5 ☐ Qualifying widow(er) with dependent child
Check only one box.

Exemptions 6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a } **Boxes checked on 6a and 6b** **TBD**
b ☐ Spouse } **No. of children on 6c who:**
c **Dependents:** (2) Dependent's social security number (3) Dependent's relationship to you (4) ☐ if child under age 17 qualifying for child tax credit (see instructions)
(1) First name Last name
If more than four dependents, see instructions and check here ☐ **Dependents on 6c not entered above**
d Total number of exemptions claimed **Add numbers on lines above** **TBD**

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 **18,000**
8a Taxable interest. Attach Schedule B if required 8a
b Tax-exempt interest. Do not include on line 8a 8b
9a Ordinary dividends. Attach Schedule B if required 9a
b Qualified dividends 9b
10 Taxable refunds, credits, or offsets of state and local income taxes 10
11 Alimony received 11
12 Business income or (loss). Attach Schedule C or C-EZ 12 **TBD**
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐ 13
14 Other gains or (losses). Attach Form 4797 14
15a IRA distributions 15a b Taxable amount 15b
16a Pensions and annuities 16a b Taxable amount 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17
18 Farm income or (loss). Attach Schedule F 18
19 Unemployment compensation 19
20a Social security benefits 20a b Taxable amount 20b
21 Other income. List type and amount 21
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** **►** 22

Adjusted Gross Income 23 Educator expenses 23
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24
25 Health savings account deduction. Attach Form 8889 25
26 Moving expenses. Attach Form 3903 26
27 Deductible part of self-employment tax. Attach Schedule SE 27 **1,696**
28 Self-employed SEP, SIMPLE, and qualified plans 28
29 Self-employed health insurance deduction 29
30 Penalty on early withdrawal of savings 30
31a Alimony paid b Recipient's SSN **►** 31a
32 IRA deduction 32
33 Student loan interest deduction 33
34 Tuition and fees. Attach Form 8917 34
35 Domestic production activities deduction. Attach Form 8903 35
36 Add lines 23 through 35 36 **1,696**
37 Subtract line 36 from line 22. This is your **adjusted gross income** **►** 37 **16,304**

Tax and Credits**Standard Deduction for—**

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.

• All others:
Single or Married filing separately, \$6,300
Married filing jointly or Qualifying widow(er), \$12,600

Head of household, \$9,250

38	Amount from line 37 (adjusted gross income)	38	16,304
39a	Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	TBD
41	Subtract line 40 from line 38	41	TBD
42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42	TBD
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	TBD
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	
45	Alternative minimum tax (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46	47	TBD
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credits. Attach Form 5695	53	
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55	Add lines 48 through 54. These are your total credits	55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	3,391
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	61	
62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your total tax	63	TBD

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2015 estimated tax payments and amount applied from 2014 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election 66b	66b	
67	Additional child tax credit. Attach Schedule 8812	67	
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	TBD

Refund

Direct deposit? See instructions.

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	TBD
76a	Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ▶ <input type="checkbox"/>	76a	TBD
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
77	Amount of line 75 you want applied to your 2016 estimated tax ▶	77	

Amount You Owe

78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	TBD
79	Estimated tax penalty (see instructions)	79	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶
--------------------------	--------------------	---

Sign Here

Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed
Firm's name ▶	Firm's EIN ▶	Phone no.	PTIN

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese.

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2016

Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040 or Form 1040NR)

Sample Deacon

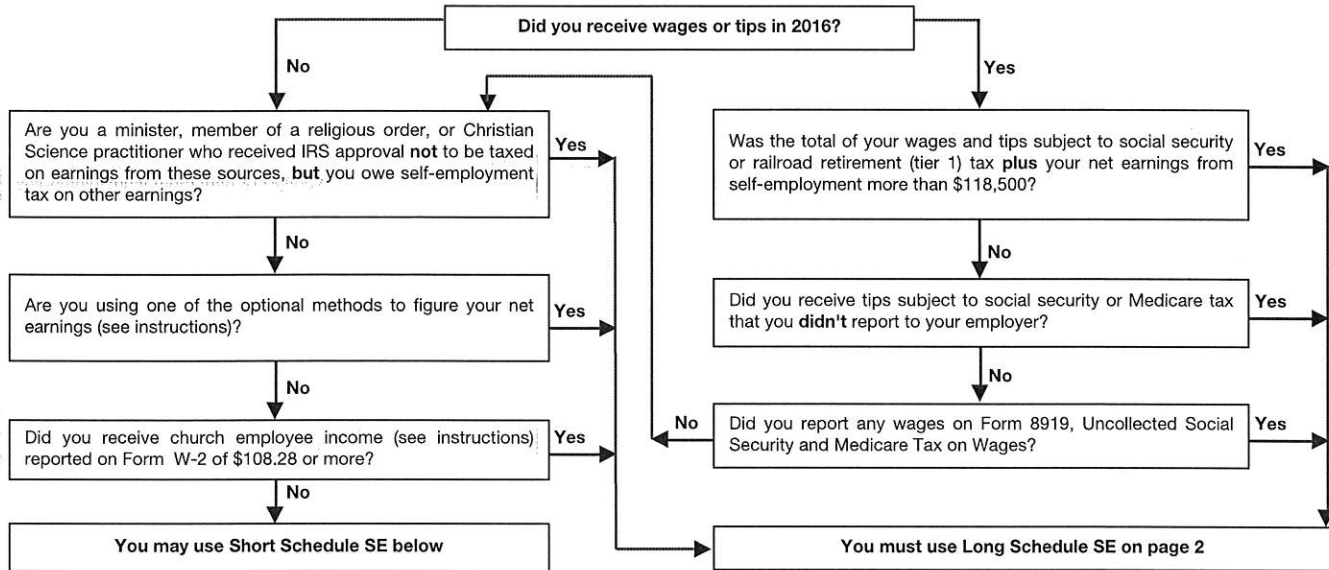
Social security number of person
with self-employment income ►

TBD

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a		
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	()
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	24,000	
3	Combine lines 1a, 1b, and 2	3	24,000	
4	Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b. ►	4	22,164	
Note.	If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.			
5	Self-employment tax. If the amount on line 4 is: • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	3,391	
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	1,696	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2016