



Memo

Date: November 4, 2024

To: Pastors, deacons and business managers

From: Holly Orsagh, director of financial services, 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 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 the Office of 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 me at horsagh@archatl.com.

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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 Office of Human Resources.

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

Another source of information is *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 amount actually used to provide or rent a home, or
- 3) the fair market rental value of the home (including furnishings, utilities, garage, etc.)
- 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 Office of Human Resources (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 receive 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

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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 Shannon Wiggins at swiggins@archatl.com.

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

To: Archdiocesan Office of Human Resources

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.

	<u>Annual \$ Amounts</u>
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- _ _ _ _

HR Use Only:

Reviewed By: _____ Date sent to Payroll location _____

Last Revised:

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Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2023** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2023, or other tax year beginning _____, 2023, ending _____, 20____ See separate instructions.

Your first name and middle initial: **Sample Deacon Housing** Last name: **Deacon Compensation = \$24,000** Your social security number: _____
 If joint return, spouse's first name and middle initial: _____ Last name: _____ Spouse's social security number: _____
 Documentation supports \$6,000 as the lowest of the four limits.

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. _____ 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

City, town, or post office. If you have a foreign address, also complete spaces below. State: _____ ZIP code: _____
 Foreign country name: _____ Foreign province/state/county: _____ Foreign postal code: _____

Filing Status Single Head of household (HOH)
 Married filing jointly (even if only one had income)
 Married filing separately (MFS) Qualifying surviving spouse (QSS)
 Check only one box. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____

Digital Assets At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1959 Are blind Spouse: Was born before January 2, 1959 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	18,000
b Household employee wages not reported on Form(s) W-2	1b	
c Tip income not reported on line 1a (see instructions)	1c	
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e Taxable dependent care benefits from Form 2441, line 26	1e	
f Employer-provided adoption benefits from Form 8839, line 29	1f	
g Wages from Form 8919, line 6	1g	
h Other earned income (see instructions)	1h	TBD
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h	1z	
2a Tax-exempt interest	2a	
3a Qualified dividends	3a	
4a IRA distributions	4a	
5a Pensions and annuities	5a	
6a Social security benefits	6a	
b Taxable interest	2b	
b Ordinary dividends	3b	
b Taxable amount	4b	
b Taxable amount	5b	
b Taxable amount	6b	
c If you elect to use the lump-sum election method, check here (see instructions)		
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	
8 Additional income from Schedule 1, line 10	8	TBD
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	
10 Adjustments to income from Schedule 1, line 26	10	1,696
11 Subtract line 10 from line 9. This is your adjusted gross income	11	
12 Standard deduction or itemized deductions (from Schedule A)	12	
13 Qualified business income deduction from Form 8995 or Form 8995-A	13	
14 Add lines 12 and 13	14	
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15	

Standard Deduction for—
 • Single or Married filing separately, \$13,850
 • Married filing jointly or Qualifying surviving spouse, \$27,700
 • Head of household, \$20,800
 • If you checked any box under Standard Deduction, see instructions.

Attach Sch. B if required.

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Form 1040 (2023)		Page 2
Tax and Credits	16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16 TBD
	17 Amount from Schedule 2, line 3	17
	18 Add lines 16 and 17	18
	19 Child tax credit or credit for other dependents from Schedule 8812	19
	20 Amount from Schedule 3, line 8	20
	21 Add lines 19 and 20	21
	22 Subtract line 21 from line 18. If zero or less, enter -0-	22
	23 Other taxes, including self-employment tax, from Schedule 2, line 21	23 3,391
	24 Add lines 22 and 23. This is your total tax	24 TBD
Payments	25 Federal income tax withheld from:	
	a Form(s) W-2	25a
	b Form(s) 1099	25b
	c Other forms (see instructions)	25c
	d Add lines 25a through 25c	25d
	26 2023 estimated tax payments and amount applied from 2022 return	26
	27 Earned income credit (EIC)	27
	28 Additional child tax credit from Schedule 8812	28
	29 American opportunity credit from Form 8863, line 8	29
	30 Reserved for future use	30
	31 Amount from Schedule 3, line 15	31
	32 Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits	32
	33 Add lines 25d, 26, and 32. These are your total payments	33
Refund	34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34
	35a Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a
Direct deposit? See instructions.	b Routing number: _____ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d Account number: _____	
	36 Amount of line 34 you want applied to your 2024 estimated tax	36
Amount You Owe	37 Subtract line 33 from line 24. This is the amount you owe. For details on how to pay, go to www.irs.gov/Payments or see instructions	37
	38 Estimated tax penalty (see instructions)	38
Third Party Designee	Do you want to allow another person to discuss this return with the IRS? See instructions <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
	Designee's name _____ Phone no. _____	Personal identification number (PIN) _____
Sign Here	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 _____ If the IRS sent you an Identity Protection PIN, enter it here (see inst.) _____
Joint return? See instructions. Keep a copy for your records.	Spouse's signature. If a joint return, both must sign. _____ Date _____	Spouse's occupation _____ If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) _____
	Phone no. _____ Email address _____	
Paid Preparer Use Only	Preparer's name _____ Preparer's signature _____ Date _____	PTIN _____ Check if: <input type="checkbox"/> Self-employed
	Firm's name _____ Phone no. _____	
	Firm's address _____ Firm's EIN _____	

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**SCHEDULE 1
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment
Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR
Deacon Deacon

Your social security number

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes	1	
2a Alimony received	2a	
b Date of original divorce or separation agreement (see instructions): _____		
3 Business income or (loss). Attach Schedule C	3	24,000.
4 Other gains or (losses). Attach Form 4797	4	
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6 Farm income or (loss). Attach Schedule F	6	
7 Unemployment compensation	7	
8 Other income:		
a Net operating loss	8a ()	
b Gambling	8b	
c Cancellation of debt	8c	
d Foreign earned income exclusion from Form 2555	8d ()	
e Income from Form 8853	8e	
f Income from Form 8889	8f	
g Alaska Permanent Fund dividends	8g	
h Jury duty pay	8h	
i Prizes and awards	8i	
j Activity not engaged in for profit income	8j	
k Stock options	8k	
l Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n Section 951(a) inclusion (see instructions)	8n	
o Section 951A(a) inclusion (see instructions)	8o	
p Section 461(l) excess business loss adjustment	8p	
q Taxable distributions from an ABLÉ account (see instructions)	8q	
r Scholarship and fellowship grants not reported on Form W-2	8r	
s Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s ()	
t Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u Wages earned while incarcerated	8u	
z Other income. List type and amount: _____	8z	
9 Total other income. Add lines 8a through 8z	9	
10 Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	24,000.

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

Schedule 1 (Form 1040) 2023

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Schedule 1 (Form 1040) 2023

Page **2**

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	1,696.
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions): _____		
20	IRA deduction	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount: _____	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	1,696.

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**SCHEDULE 2
 (Form 1040)**

Department of the Treasury
 Internal Revenue Service

Additional Taxes

Attach to Form 1040, 1040-SR, or 1040-NR.
 Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023
 Attachment
 Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR
 Deacon Deacon

Your social security number

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1	
2	Excess advance premium tax credit repayment. Attach Form 8962	2	
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 . . .	3	

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE	4	3,391.
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5	
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6	
7	Total additional social security and Medicare tax. Add lines 5 and 6	7	
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8	
9	Household employment taxes. Attach Schedule H	9	
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10	
11	Additional Medicare Tax. Attach Form 8959	11	
12	Net investment income tax. Attach Form 8960	12	
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	

(continued on page 2)

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Part II Other Taxes *(continued)*

17 Other additional taxes:			
a Recapture of other credits. List type, form number, and amount:	17a		
b Recapture of federal mortgage subsidy, if you sold your home see instructions	17b		
c Additional tax on HSA distributions. Attach Form 8889	17c		
d Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d		
e Additional tax on Archer MSA distributions. Attach Form 8853	17e		
f Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f		
g Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g		
h Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h		
i Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i		
j Section 72(m)(5) excess benefits tax	17j		
k Golden parachute payments	17k		
l Tax on accumulation distribution of trusts	17l		
m Excise tax on insider stock compensation from an expatriated corporation	17m		
n Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n		
o Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o		
p Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p		
q Any interest from Form 8621, line 24	17q		
z Any other taxes. List type and amount: _____	17z		
18 Total additional taxes. Add lines 17a through 17z		18	
19 Reserved for future use		19	
20 Section 965 net tax liability installment from Form 965-A	20		
21 Add lines 4, 7 through 16, and 18. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b		21	3,391.

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**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

Attach to Form 1040, 1040-SR, 1040-SS, or 1040-NR.

Go to www.irs.gov/ScheduleSE for instructions and the latest information.

OMB No. 1545-0074

2023
Attachment
Sequence No. **17**

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

Deacon Deacon

Social security number of person
with self-employment income

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A			
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 AQ	1b ()
Skip line 2 if you use the nonfarm optional method in Part II. See instructions.			
2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order	2		24,000.
3 Combine lines 1a, 1b, and 2	3		24,000.
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4a		22,164.
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b		
c Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue	4c		22,164.
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a		
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b		0.
6 Add lines 4c and 5b	6		22,164.
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2023	7		160,200
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$160,200 or more, skip lines 8b through 10, and go to line 11	8a		0.
b Unreported tips subject to social security tax from Form 4137, line 10	8b		
c Wages subject to social security tax from Form 8919, line 10	8c		
d Add lines 8a, 8b, and 8c	8d		0.
9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11	9		160,200.
10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10		2,748.
11 Multiply line 6 by 2.9% (0.029)	11		643.
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4, or Form 1040-SS, Part I, line 3	12		3,391.
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15	13		1,696.

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

Schedule SE (Form 1040) 2023