



GREEK ORTHODOX METROPOLIS OF DENVER

February 8, 2008

Protocol 08-6

All Parish Clergy and
The Esteemed Parish Councils of
The Holy Metropolis of Denver

Beloved in the Lord,

The Metropolis Office has received an unusually large number of phone calls in the past several days from both priests and parish council officers concerning the correct way to account for clergy compensation.

The issue of clergy compensation and Internal Revenue Service (IRS) reporting is very complex, and even a basic "Tax Guide for Clergy" could run to dozens of pages. Professional accountants who have expertise in this field often have different opinions about various aspects of our tax code, and sometimes are not aware of the specific circumstances that apply to Greek Orthodox parish clergy *vis-a-vis* other priests, ministers, and rabbis.

My purpose in this Protocol is therefore not to provide a comprehensive tax guide nor to offer tax advice but to address questions that are being brought to my office at this time. I have prepared the following with the assistance of Father Michael Kontogiorgis, the Assistant Chancellor of the Archdiocese who has extensive background in these matters, and of Father Gabriel Karambis who is our representative on the Archdiocese Benefits Committee.

"Employee" Status. Orthodox priests are ordained by the Holy Spirit and assigned by their hierarchy to serve as the "father" of a local parish. In no way whatsoever is the parish priest ever to be regarded as an "employee" of the parish or of the parish council.

In light of recent Tax Court rulings, in January 1, 2001, the Archdiocese took the position that for IRS federal income tax and state/city tax purposes, our clergy are considered "employees." The Archdiocese is the "employer," and the parish is merely the "payer" of the compensation package established by the Metropolitan in accordance with the annual compensation plan. In this regard the responsibility of the parish is to pay the priest and to issue the appropriate tax forms.

At the same time, our clergy are considered "self-employed" by the IRS and Social Security Administration for Social Security and Medicare tax purposes.

Form W-2 versus Form 1099. Each parish priest is to receive a Form W-2 for the reporting of income received from the parish in conjunction with carrying out the duties of his ministry. The exception to this is that priests substituting or assisting on an occasional basis (for example to fill in for a priest who is on vacation or ill) are to receive a Form 1099 if the income they receive from each parish is \$600 or greater. A regular, full-time parish priest would *not* receive a Form 1099.

Withholding of FICA, Medicare, or Self-Employment Taxes (SECA). This is *never* permitted for ordained clergy on income received in conjunction with carrying out the duties of his ministry since our clergy by law are self-employed for these taxes.

Payment of SECA/Medicare Taxes. According to the *Uniform Parish Regulations* (UPR), the parish is obliged to pay the full amount of Social Security/Medicare taxes. The parish pays the self-

employment tax (15.3%) on the priest's salary and housing allowance. The priest files Schedule SE when he files his taxes. This payment by the parish to the priest for Social Security and Medicare taxes is taxable income and would be listed with a priest's salary as income on a W-2.

Federal and State Income Tax Withholding. Ordained clergy are *not subject* to the mandatory withholding of taxes on income received in conjunction with carrying out the duties of their ministry. They can nonetheless *request* sufficient withholding by the parish to cover their anticipated tax liability. Clergy who choose to have this done should also include their anticipated tax liability for Social Security/Medicare taxes. Clergy who choose *not* to have withholding *must* file and pay quarterly estimated income tax payments.

Housing Allowance. For income tax purposes ordained clergy's "gross income" does *not* include the Housing Allowance. On Form W-2 the Housing Allowance is separated from salary and is listed in box 14. The annual Housing Allowance must be designated before it is paid; this designation must be in the form of a Parish Council resolution made prior to the payment of any funds for this purpose.

The Housing Allowance may be provided in kind in the form of a rectory (parish home), in which case this amount is the fair market rental value. Or it may be a rental allowance used by the priest to rent a home. It may also be the estimated total amount of actual housing expenses including mortgage payments, maintenance, real estate taxes, and repairs expected to be paid by the priest. If actual housing expenses are less than the declared amount at the beginning of the year, the difference becomes part of his taxable income and is so declared when completing tax forms.

Income Subject to Federal and State/City Income Taxes. Simply put, an ordained clergyman pays federal and state income tax on his gross income (salary and Social Security/Medicare payments made to him by the parish) minus the Housing Allowance.

Transportation Allowance. In accordance with the UPR, the parish must either purchase or lease an automobile for use by the priest, and cover all related upkeep, maintenance, repair and insurance expenses. In some cases, a transportation (car) allowance has been permitted. If a transportation allowance is given without receipts being submitted by the clergyman for reimbursement of the actual value of the receipts, then that transportation allowance is taxable income and added to salary and Social Security/Medicare payments received by the clergyman in completing a W-2. The clergyman can then deduct any related expenses when he files his taxes.

Health Insurance. Also in accordance with the UPR, the parish must afford the priest with the Orthodox Health Plan. If your parish is not doing so at present, you must be prepared to do so as soon as possible. The dollar amount paid for health insurance is not considered part of gross income for federal or state income tax purposes. It would be so considered and added to income if a priest were 'self-employed' and receiving a 1099. (In that instance, the full value of the insurance would be a deductible expense when a clergyman files a Schedule C.)

With Paternal Blessings,



✠ Metropolitan Isaiah of Denver