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# Social Security and Other Information for Members of the Clergy and Religious Workers

For use in preparing  
**2002** Returns



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## Important Changes for 2002

**Members of recognized religious sects.** Beginning in 2002, self-employed members of recognized religious sects who are exempt from self-employment tax may be eligible to participate in SEP, SIMPLE, or Keogh retirement plans. For more information, see Publication 560, *Retirement Plans for Small Business*.

**Earned income credit.** Beginning in 2002, the following changes take effect.

- Earned income no longer includes employee compensation that is nontaxable.
- Your earned income credit is figured using your adjusted gross income, *not* your modified adjusted gross income.

For other changes to the earned income credit, see Publication 596.

**Increased contribution limits for traditional IRAs and Roth IRAs.** For 2002, allowable contributions to a traditional IRA and a Roth IRA will be increased to \$3,000 (\$3,500 if age 50 or over). In prior years, contributions were limited to \$2,000. For more information, see *Retirement Savings Arrangements*, later.

**Increased self-employed health insurance deduction.** In 2002, the self-employed health insurance deduction increases from 60% (in 2001) to 70% of the cost of the insurance. For more information, see *Health Insurance Costs of*

*Self-Employed Ministers*, later under *Income Tax: Income and Expenses*.

**Retirement savings contributions.** Beginning in 2002, you may be able to take a tax credit for certain contributions you make to a retirement plan or an individual retirement arrangement. For more information, see *Retirement savings contributions credit*, later, under *Retirement Savings Arrangements*.

## Important Change for 2003

**Increased self-employed health insurance deduction.** In 2003, the self-employed health insurance deduction will increase to 100% of the cost of the insurance.

## Important Reminder

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can

help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

## Introduction

Social security and Medicare taxes are collected under two systems. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the taxes. Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the taxes. No earnings are subject to both systems.

This publication covers the following topics about the collection of social security and Medicare taxes from members of the clergy and religious workers.

- Which earnings are taxed under SECA and which under FICA. (See *Table 1* to determine whether FICA or SECA applies.)
- How a member of the clergy (minister, member of a religious order, or Christian Science practitioner) can apply for an exemption from self-employment tax.
- How to figure net earnings from self-employment.

This publication also covers certain income tax rules of interest to the clergy.

A comprehensive example shows filled-in forms for a minister who has income taxed under SECA, other income taxed under FICA, and income tax reporting of items specific to the clergy.

**Note.** In this publication, the term **church** is generally used in its generic sense and not in reference to any particular religion.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

You can e-mail us while visiting our web site at [www.irs.gov](http://www.irs.gov).

You can write to us at the following address:

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

**Table 1. Are You Covered Under FICA or SECA?**

(Find your occupation in the left column and read across the table to find if you are covered under FICA or SECA. Do not rely on this table alone. Also read the discussion for your occupation in the following pages.)

Occupation	Covered under FICA?	Covered under SECA?
Christian Science practitioner or reader	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have this exemption.*
Member of a recognized religious sect	YES, if you are an employee and do not have an approved exemption from the IRS. NO, if you have this exemption.	YES, if you are self-employed and do not have an approved exemption from the IRS. NO, if you have this exemption.
Member of a religious order who has taken a vow of poverty	YES, if— <ul style="list-style-type: none"> <li>• Your order elected FICA coverage for its members, OR</li> <li>• You worked outside the order and the work was not required by, or done on behalf of, the order.</li> </ul> NO, if neither of the above applies.*	NO. You are exempt.*
Member of a religious order who has <b>not</b> taken a vow of poverty	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have this exemption.*
Minister	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have this exemption.*
Religious worker (church employee)	NO, if your employer elected not to have you covered.	YES, if your employer elected not to have you covered under FICA. NO, if you are covered under FICA.

\* The exemption applies only to qualified services as defined later under *Qualified Services*.

## Useful Items

You may want to see:

### Publication

- ❑ **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- ❑ **525** Taxable and Nontaxable Income
- ❑ **529** Miscellaneous Deductions
- ❑ **533** Self-Employment Tax
- ❑ **535** Business Expenses
- ❑ **590** Individual Retirement Arrangements (IRAs)
- ❑ **596** Earned Income Credit

### Form (and Instructions)

- ❑ **SS-8** Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding
- ❑ **SS-16** Certificate of Election of Coverage Under the Federal Insurance Contributions Act
- ❑ **Schedule SE (Form 1040)** Self-Employment Tax
- ❑ **1040-ES** Estimated Tax for Individuals
- ❑ **1040X** Amended U.S. Individual Income Tax Return
- ❑ **4029** Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
- ❑ **4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

**Ordering publications and forms.** See *How To Get Tax Help*, near the end of this publication, for information about getting these publications and forms.

## Social Security Coverage

The services you perform in the exercise of your ministry are covered by social security and Medicare under SECA. Your earnings for these services are subject to self-employment tax (SE tax) unless one of the following applies.

- You are a member of a religious order who has taken a vow of poverty.
- You ask the Internal Revenue Service (IRS) for an exemption from SE tax for your services and the IRS approves your request. See *Exemption From Self-Employment (SE) Tax*, later.
- You are subject only to the social security laws of a foreign country under the provisions of a social security agreement between the United States and that country. For more information, see *Binational Social Security (Totalization) Agreements* in Publication 54.

Your earnings that are not from the exercise of your ministry may be subject to social security tax under FICA or SECA according to the rules that apply to taxpayers in general. See *Qualified Services*, later.

## Ministers

If you are a minister of a church, your earnings for the services you perform in your capacity as a minister are subject to SE tax unless you have requested and received an exemption. See *Exemption From Self-Employment (SE) Tax*, later. These earnings are subject to SE tax whether you are an employee of your church or a self-employed person under the common law rules. For the specific services covered, see *Qualified Services*, later.

## Ministers Defined

Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.

If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.

## Employment Status for Other Tax Purposes

Even though you are considered a self-employed individual in performing your ministerial services for social security tax purposes, you may be considered an employee for income tax or retirement plan purposes. For income tax or retirement plan purposes, some of your income may be considered self-employment income and other income may be considered wages.

**Common-law employee.** Under common law rules, you are considered either an employee or a self-employed person depending on all the facts and circumstances. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action. For more information about the common-law rules, get Publication 15-A, *Employer's Supplemental Tax Guide*.

If you are employed by a congregation for a salary, you are generally a common-law employee and income from the exercise of your ministry is considered wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are considered self-employment income.

**Example.** A church hires and pays you a salary to perform ministerial services subject to its control. Under the common-law rules, you are an employee of the church while performing those services.

**Form SS-8.** If you are not certain whether you are an employee or a self-employed person, you can get a determination from the IRS by filing Form SS-8.

## Members of Religious Orders

If you are a member of a religious order who has **not** taken a vow of poverty, your earnings for qualified services you performed as a member of the order are subject to SE tax. See *Qualified Services*, later. This does not apply if you have requested and received an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later.

**Vow of poverty.** If you are a member of a religious order who has taken a vow of poverty, you are **exempt** from paying SE tax on your earnings for qualified services (defined later) you perform as an agent of your church or its agencies. For income tax purposes, the earnings are tax free to you. Your earnings are considered the income of the religious order.

**Services covered under FICA at the election of the order.** Even if you have taken a vow of poverty, the services you perform for your church or its agencies may be covered under social security. Your services are covered if your order, or an autonomous subdivision of the order, elects social security coverage for its current and future vow-of-poverty members.

The order or subdivision elects coverage by filing Form SS-16. It can elect coverage for certain vow-of-poverty members for a retroactive period of up to 20 calendar quarters before the quarter in which it files the certificate. If the election is made, the order or subdivision pays both the employer's and employee's share of the tax. You do not pay.

**Services performed outside the order.** Even if you are a member of a religious order who has taken a vow of poverty and are required to turn over to the order amounts you earn, your earnings are subject to federal income tax withholding and employment (FICA) tax if you:

- Work for an organization outside your religious community, and
- Perform work that is not required by, or done on behalf of, the order.

In this case, you are considered an employee of that outside organization. You may, however, be able to take a charitable deduction for the amount you turn over to the order. See Publication 526, *Charitable Contributions*.

**Lay employees.** Lay employees generally are covered by social security. However, see *Election To Exclude Church Employees From FICA Coverage*, later, under *Religious Workers*.

**Rulings.** Organizations and individuals may request rulings from the IRS on whether they are religious orders, or members of a religious order, respectively, for FICA tax, SE tax, and federal income tax withholding purposes. To request a ruling, follow the procedures in Revenue Procedure 2002-1, which is published in Internal Revenue Bulletin 2002-1.

You can read this Revenue Procedure at most IRS offices or, if you have a personal

computer, visit the IRS on the Internet at [www.irs.gov/ind\\_info/bullet.html](http://www.irs.gov/ind_info/bullet.html).

To subscribe to the Bulletin, you can order it on the Internet at <http://bookstore.gpo.gov/irs>. You also can write to:

Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954.

## Christian Science Practitioners and Readers

Your earnings from services you performed in your profession as a Christian Science practitioner or reader are generally subject to SE tax. However, you can request an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later.

**Practitioners.** Christian Science practitioners are members in good standing of the Mother Church, The First Church of Christ Scientist, in Boston, Massachusetts, who practice healing according to the teachings of Christian Science. Christian Science practitioners are specifically exempted from licensing by state laws.

Some Christian Science practitioners also are Christian Science teachers or lecturers. Income from teaching or lecturing is considered the same as income from their work as practitioners.

**Readers.** Christian Science readers are considered the same as ordained, commissioned, or licensed ministers.

## Religious Workers (Church Employees)

If you are a religious worker (a church employee) and are not in one of the classes already discussed, your wages are generally subject to social security and Medicare tax (FICA) and not to SE tax. Some exceptions are discussed next.

## Election To Exclude Church Employees From FICA Coverage

Churches and qualified church-controlled organizations (church organizations) that are opposed for religious reasons to the payment of social security and Medicare taxes can elect to exclude their employees from FICA coverage. If you are an employee of a church or church organization that makes this election and pays you \$108.28 or more in wages, you must pay SE tax on those wages.

Churches and church organizations make this election by filing two copies of Form 8274, *Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes*. For more information about making this election, get Form 8274.

## Election by Church Employees Who Are Opposed to Social Security and Medicare

You may be able to choose to be exempt from social security and Medicare taxes, including the SE tax, if you work for a church (or church-con-

trolled non-profit division) that does not pay the employer's part of the social security tax on wages. You can make the choice if you are a member of a religious sect or division opposed to social security and Medicare. This exemption does not apply to your service, if any, as a minister of a church or as a member of a religious order.

You can make this choice by filing Form 4029. See *Requesting exemption — Form 4029*, later, under *Members of Recognized Religious Sects*.

## U.S. Citizens and Resident and Nonresident Aliens

To be covered under the SE tax provisions (SECA), individuals generally must be citizens or resident aliens of the United States. Nonresident aliens are not covered under SECA.

To determine your alien status, see Publication 519, *U.S. Tax Guide for Aliens*.

**Residents of Puerto Rico, the Virgin Islands, Guam, the CNMI, and American Samoa.** Residents of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa, who are not U.S. citizens, are treated the same as citizens or resident aliens of the United States for SE tax purposes. For information on figuring the tax, see *Figuring Net Earnings From Self-Employment for SE Tax*, later.

## Exemption From Self-Employment (SE) Tax

You can request an exemption from SE tax if you are one of the following.

- A minister.
- A member of a religious order who has **not** taken a vow of poverty.
- A Christian Science practitioner.
- A member of a recognized religious sect.



**Members of religious orders who have taken a vow of poverty are exempt from paying SE tax, as discussed earlier under Members of Religious Orders. They do not have to request the exemption.**

**Who cannot be exempt?** You cannot be exempt from SE tax if you made one of the following elections to be covered under social security. These elections are irrevocable.

- You elected to be covered under social security by filing Form 2031 for your 1986, 1987, 2000, or 2001 tax year.
- You elected before 1968 to be covered under social security for your ministerial services.

**Requesting exemption.** Table 2 briefly summarizes the procedure for requesting exemption from the SE tax. More detailed explanations follow.



**An approved exemption only applies to earnings you receive for qualified services, discussed later. It does not apply to any other SE income.**

## Ministers, Members of Religious Orders, and Christian Science Practitioners

To claim the exemption from SE tax, you must meet all of the following conditions.

- You file Form 4361, described later under *Requesting exemption — Form 4361*.
- You are conscientiously opposed to public insurance because of your individual religious considerations (not because of your general conscience), or you are opposed because of the principles of your religious denomination.
- You file for other than economic reasons.
- You inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty

**Table 2. The Self-Employment Tax Exemption Application and Approval Process**

Who Can Apply	Ministers, Members of Religious Orders, and Christian Science Practitioners	Member of Recognized Religious Sect
<b>How</b>	File Form 4361	File Form 4029
<b>When</b>	File by the due date (plus extensions) of your income tax return for the second tax year in which you had at least \$400 of net earnings from self-employment (at least part from qualified services)	File anytime
<b>Approval</b>	If approved, you will receive an approved copy of Form 4361	If approved, you will receive an approved copy of Form 4029
<b>Effective Date</b>	For all tax years after 1967 in which you have at least \$400 of net earnings from self-employment	First day of first quarter after the quarter in which Form 4029 was filed

member). This requirement does **not** apply to Christian Science practitioners.

- You establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization.
- You establish that the organization is a church or a convention or association of churches.
- You did not make an election discussed earlier under *Who cannot be exempt?*
- You sign and return the statement the IRS mails to you to certify that you are requesting an exemption based on the grounds listed on the statement.

**Requesting exemption — Form 4361.** To request exemption from SE tax, file Form 4361 in triplicate (original and two copies) with the IRS.



The IRS will return to you a copy of the Form 4361 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

**When to file.** File Form 4361 by the date your income tax return is due, including extensions, for the second tax year in which you have net earnings from self-employment of at least \$400. This rule applies if any part of your net earnings for each of the two years came from your services as a:

- Minister,
- Member of a religious order, or
- Christian Science practitioner.

The two years do not have to be consecutive tax years.



*The approval process can take some time, so you should file Form 4361 as soon as possible.*

**Example 1.** Rev. Lawrence Jaeger, a clergyman ordained in 2002, has net earnings of \$450 in 2002 and \$500 in 2003. He must file his application for exemption by the due date, including extensions, for his 2003 income tax return. However, if Rev. Jaeger does not receive IRS approval for an exemption by April 15, 2004, his SE tax for 2003 is due by that date.

**Example 2.** Rev. Louise Wolfe has \$300 in net earnings as a minister in 2002, but earned more than \$400 in both 2001 and 2003. She must file her application for exemption by the due date, including extensions, for her 2003 income tax return. However, if she does not receive IRS approval for an exemption by April 15, 2004, her SE tax for 2003 is due by that date.

**Example 3.** In 2000, Rev. David Moss was ordained a minister and had \$700 in net earnings as a minister. In 2001, he received \$1,000 as a minister, but his related expenses were over \$1,000. Therefore, he had no net earnings as a minister in 2001. Also in 2001, he opened a book store and had \$8,000 in net self-employment earnings from the store. In 2002, he had

net earnings of \$1,500 as a minister and \$10,000 net SE earnings from the store.

Rev. Moss had net earnings from self-employment in 2000 and 2002 that were \$400 or more each year, and part of the earnings in each of those years was for his services as a minister, so he must file his application for exemption by the due date, including extensions, for his 2002 income tax return.

**Death of individual.** The right to file an application for exemption ends with an individual's death. A surviving spouse, executor, or administrator cannot file an exemption application for a deceased clergy member.

**Effective date of exemption.** An approved exemption is effective for all tax years after 1967 in which you have \$400 or more of net earnings from self-employment and any part of the earnings is for services as a member of the clergy. Once the exemption is approved, it is irrevocable.

**Example.** Rev. Trudy Austin, ordained in 2001, had \$400 or more in net earnings as a minister in both 2001 and 2002. She files an application for exemption on February 18, 2003. If an exemption is granted, it is effective for 2001 and the following years.

**Refunds of SE tax.** If, after receiving an approved Form 4361, you find that you overpaid SE tax, you can file a claim for refund on Form 1040X before the period of limitations ends. This is generally within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed, or tax you paid, before the due date is considered to have been filed or paid on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund will not be more than the tax you paid within the 2 years immediately before you file the claim.

## Members of Recognized Religious Sects

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from payment of social security and Medicare taxes.

**Exception.** If you received social security benefits or payments, or anyone else received these benefits or payments based on your wages or SE income, you cannot apply. However, if you pay your benefits back, you may be considered for exemption. Contact your local Social Security office to find out the amount to be paid back.

**Eligibility requirements.** To claim this exemption from SE tax, **all** the following requirements must be met.

- 1) You must file Form 4029, discussed later under *Requesting exemption — Form 4029*.
- 2) As a follower of the established teachings of the sect or division, you must be conscientiously opposed to accepting benefits of any private or public insurance that makes payments for death, disability, old age, re-

tirement, or medical care, or provides services for medical care.

- 3) You must waive all rights to receive any social security payment or benefit and agree that no benefits or payments will be made to anyone else based on your wages and SE income.
- 4) The Commissioner of Social Security must determine that:
  - a) Your sect or division has the established teachings as in (2) above,
  - b) It is the practice, and has been for a substantial period of time, for members of the sect or division to provide for their dependent members in a manner that is reasonable in view of the members' general level of living, and
  - c) The sect or division has existed at all times since December 31, 1950.

If you have previously received approval for exemption from SE tax, you are considered to have met the requirements and do not need to apply for this exemption.

**Requesting exemption — Form 4029.** To request the exemption, file Form 4029 in triplicate with the Social Security Administration at the address shown on the form. The sect or division must complete part of the form.



The IRS will return to you a copy of the Form 4029 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

**When to file.** You can file Form 4029 at any time.

**Effective date of exemption.** An approved exemption generally is effective on the first day of the first quarter after the quarter in which Form 4029 is filed. It does not apply to any tax year beginning before you meet the eligibility requirements discussed earlier.

The exemption will end if you fail to meet the eligibility requirements or if the Commissioner of Social Security determines that the sect or division fails to meet them. You must notify the IRS within 60 days if you are no longer a member of the religious group, or if you no longer follow the established teachings of this group. The exemption will end on the date you notify the IRS.

**Refunds of SE tax paid.** For information on requesting refunds, see *Ministers, Members of Religious Orders, and Christian Science Practitioners*, earlier.

## Exemption From FICA Taxes

Generally, under FICA, the employer and the employee each pay half of the social security and Medicare tax. Both the employee and the employer, if they meet the eligibility requirements discussed earlier, can apply to be exempt from their share of FICA taxes on wages paid by the employer to the employee.

A partnership in which each partner holds a religious exemption from social security and Medicare is an employer for this purpose.



If the employer's application is approved, the exemption will apply only to FICA taxes on wages paid to employees who also received an approval of identical applications.

**Information for employers.** If you have an approved Form 4029 and you have an employee who has an approved Form 4029, do not report wages you paid to the employee as social security and Medicare wages.

If you have an employee who does not have an approved Form 4029, you must withhold the employee's share of social security and Medicare taxes and pay the employer's share.

**Form W-2.** When preparing a Form W-2 for an employee with an approved Form 4029, write "Form 4029" in the box marked *Other*. Do not make any entries in box 3, 4, 5, or 6.

**Forms 941 and 943.** Do not include these exempt wages on Form 941, *Employer's Quarterly Federal Tax Return*, or on Form 943, *Employer's Annual Tax Return for Agricultural Employees*, if you have received an approved Form 4029.

On Form 941, write "Form 4029" to the left of the entry spaces on the lines for *Taxable social security wages*, *Taxable social security tips*, and *Taxable Medicare wages and tips*. Check the box on line 8 to show that the wages are not subject to these taxes.

On Form 943, write "Form 4029" to the left of the entry spaces on the lines for *Total wages subject to social security tax*, and *Total wages subject to Medicare tax*.

**Effective date.** An approved exemption from FICA becomes effective on the first day of the first calendar quarter after the quarter in which Form 4029 is filed. The exemption will end on the last day of the calendar quarter before the quarter in which the employer, employee, sect, or division fails to meet the requirements.

## Qualified Services

Qualified services, in general, are the services you perform in the exercise of your ministry or in the exercise of your duties as required by your religious order. Income you receive for performing qualified services is subject to SE tax unless you have an exemption as explained earlier. If you have an exemption, only the income you receive for performing qualified services is exempt. The exemption does not apply to any other SE income.

The following discussions provide more detailed information on qualified services of ministers, and members of religious orders, and Christian Science practitioners and readers.

### Ministers

Most services you perform as a minister, priest, rabbi, etc., are qualified services. These services include:

- Performing sacerdotal functions,
- Conducting religious worship, and
- Controlling, conducting, and maintaining religious organizations, boards, societies,

and other integral agencies that are under the authority of a religious body that is a church or denomination.

You are considered to control, conduct, and maintain a religious organization if you direct, manage, or promote the organization's activities.

A religious organization is under the authority of a religious body that is a church or denomination if it is organized for and dedicated to carrying out the principles of a faith according to the requirements governing the creation of institutions of the faith.

**Services for nonreligious organizations.** Your services for a nonreligious organization are qualified services if the services are assigned or designated by your church. Assigned or designated services qualify even if they do not involve performing sacerdotal functions or conducting religious worship.

If your services are not assigned or designated by your church, they are qualified services only if they involve performing sacerdotal functions or conducting religious worship.

**Services that are not part of your ministry.** Income from services that are not qualified services is generally subject to social security tax withholding (not self-employment tax) under the rules that apply to workers in general. The following are **not** qualified services.

- Services you perform for nonreligious organizations other than the services stated earlier.
- Services you perform as a duly ordained, commissioned, or licensed minister of a church as an employee of the United States, the District of Columbia, a foreign government, or any of their political subdivisions. This is true even if you are performing sacerdotal functions or conducting religious worship. (For example, if you perform services as a chaplain in the Armed Forces of the United States, the services are not qualified services.)
- Services you perform in a government-owned and operated hospital. (These services are considered performed by a government employee, not by a minister as part of the ministry.) However, services that you perform at a church-related hospital or health and welfare institution, or a private nonprofit hospital, are considered to be part of the ministry and are considered qualified services.

**Books or articles.** Writing religious books or articles is considered to be in the exercise of your ministry and is considered qualified services.

This rule also applies to members of religious orders and to Christian Science practitioners.

### Members of Religious Orders

Services you perform as a member of a religious order in the exercise of duties required by the order are qualified services. The services are

qualified because you perform them as an agent of the order.

For example, if you are directed to perform services for another agency of the supervising church or an associated institution, you are considered to perform the services as an agent of the order.

However, if you are directed to work outside the order, the employment will not be considered a duty required by the order unless:

- Your services are the kind that are ordinarily performed by members of the order, and
- Your services are part of the duties that must be exercised for, or on behalf of, the religious order as its agent.

**Effect of employee status.** Ordinarily, if your services are not considered directed or required of you by the order, you and the outside party for whom you work are considered employee and employer. In this case, your earnings from the services are taxed under the rules that apply to workers in general, not under the rules for services provided as agent for the order. This is true even if you have taken a vow of poverty.

**Example.** Mark Brown and Elizabeth Green are members of a religious order and have taken vows of poverty. They renounce all claims to their earnings. The earnings belong to the order.

Mark is a licensed attorney. The superiors of the order instructed him to get a job with a law firm. Mark joined a law firm as an employee and, as he requested, the firm made the salary payments directly to the order.

Elizabeth is a secretary. The superiors of the order instructed her to accept a job with the business office of the church that supervises the order. Elizabeth took the job and gave all her earnings to the order.

Mark's services **are not** duties required by the order. His earnings are subject to social security and Medicare tax under FICA and Federal income tax.

Elizabeth's services **are** considered duties required by the order. She is acting as an agent of the order and not as an employee of a third party. She does not include the earnings in gross income, and they are not subject to income tax withholding, social security and Medicare tax, or SE tax.

### Christian Science Practitioners and Readers

The exemption from SE tax, discussed earlier, applies only to the services a Christian Science practitioner or reader performs in the exercise of his or her profession. If you do not have an exemption, amounts you receive for performing these qualified services are subject to SE tax.

## Figuring Net Earnings From Self-Employment for SE Tax

There are two methods for figuring your net earnings from self-employment as a minister,

member of a religious order, Christian Science practitioner, or church employee.

- Regular method, or
- Nonfarm optional method.

## Regular Method

Most people use the regular method. Under this method, you figure your net earnings from self-employment by totaling your gross income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. Then, you subtract your allowable business deductions and multiply the difference by .9235 (92.35%). Use Schedule SE (Form 1040) to figure your net earnings and SE tax.

If you are an employee of a church that elected to exclude you from FICA coverage, figure net earnings by multiplying your church wages shown on Form W-2 by .9235. Do not reduce your wages by any business deductions when making this computation. Use Section B of Schedule SE (Form 1040) to figure your net earnings and SE tax.



*If you have an approved exemption, or you are automatically exempt, do not include the income or deductions from qualified services in figuring your net earnings from self-employment.*

For more information on net earnings from self-employment, get Publication 533.

**Amounts included in gross income.** To figure your net earnings from self-employment (on Schedule SE (Form 1040)), include in gross income:

- 1) Salaries and fees for your qualified services (discussed earlier),
- 2) Offerings you receive for marriages, baptisms, funerals, masses, etc.,
- 3) The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience,
- 4) The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you, and
- 5) Any amount a church pays toward your income tax or SE tax, other than withholding the amount from your salary. This amount is also subject to income tax.

For the income tax treatment of items (2) and (4), see *Income Tax: Income and Expenses*, later.

**Example.** Pastor Roger Adams receives an annual salary of \$16,500 as a full-time minister. The \$16,500 includes \$1,500 that is designated as a rental allowance to pay utilities. His church owns a parsonage that has a fair rental value of \$5,200 per year. Pastor Adams is given the use of the parsonage. He is not exempt from SE tax. He must include \$21,700 (\$16,500 plus \$5,200) when figuring net earnings from self-employment.

The results would be the same if, instead of the use of the parsonage and receipt of the

rental allowance for utilities, Pastor Adams had received an annual salary of \$21,700 of which \$6,700 (\$1,500 plus \$5,200) per year was designated as a rental allowance.

**Overseas duty.** Your net earnings from self-employment are determined without any foreign earned income exclusion or the foreign housing exclusion or deduction if you are a U.S. citizen or resident alien who is serving abroad and living in a foreign country.

For information on excluding foreign earned income or the foreign housing amount, get Publication 54.

**Example.** Paul Jones was the minister of a U.S. church in Mexico. He earned \$22,000 and was able to exclude it all for income tax purposes under the foreign earned income exclusion. However, Mr. Jones must include \$22,000 when figuring net earnings from self-employment.

**Specified U.S. possessions.** The exclusion from gross income for amounts derived in Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands does not apply in computing net earnings from self-employment. Also see *Residents of Puerto Rico, the Virgin Islands, Guam, the CNMI, and American Samoa*, earlier, under *U.S. Citizens and Resident and Nonresident Aliens*.

**Amounts not included in gross income.** Do not include the following amounts in gross income when figuring your net earnings from self-employment.

- Offerings that others made to the church.
- Contributions by your church to a tax-sheltered annuity plan set up for you, including any salary reduction contributions (elective deferrals), that are not included in your gross income.
- Pension payments or retirement allowances you receive for your past qualified services.
- The rental value of a parsonage or a parsonage allowance provided to you after you retire.

**Allowable deductions.** When figuring your net earnings from self-employment, deduct all your nonemployee ministerial expenses. Also, deduct all your allowable unreimbursed trade or business expenses that you incur in performing ministerial services as a common-law employee of the church. Include this net amount on line 2 of Schedule SE (Form 1040).

**Nonemployee ministerial expenses.** These are qualified expenses you incurred while not working as a common-law employee of the church. They include expenses incurred in performing marriages and baptisms, and in delivering speeches.

**Reimbursement arrangements.** If you received an advance, allowance, or reimbursement for your expenses, how you report this amount and your expenses depends on whether the reimbursement was paid to you under an accountable plan or a nonaccountable plan. If you are not sure if you are reimbursed from an accountable plan or a nonaccountable plan, ask your employer.

**Accountable plans.** To be an accountable plan, your employer's reimbursement arrangement must include all three of the following rules.

- Your expenses must have a business connection — that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
- You must adequately account to your employer for these expenses within a reasonable period of time.
- You must return any excess reimbursement or allowance within a reasonable period of time.

Generally, if your expenses equal your reimbursement, you have no deduction and the reimbursement is not reported on your Form W-2. If your expenses are more than your reimbursement, you can deduct your excess expenses for SE tax and income tax purposes.

**Nonaccountable plan.** A nonaccountable plan is a reimbursement arrangement that does not meet at least one of the three rules listed under *Accountable plans*. In addition, even if your employer has an accountable plan, the following payments will be treated as being paid under a nonaccountable plan.

- Excess reimbursements you fail to return to your employer.
- Reimbursement of nondeductible expenses related to your employer's business.

Your employer will combine any reimbursement paid to you under a nonaccountable plan with your wages, salary, or other compensation. Your employer will report the combined total in box 1 of your Form W-2. You can deduct your related expenses (for SE and income tax purposes) regardless of whether they are more than, less than, or equal to your reimbursement.

For more information on accountable and nonaccountable plans, get Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

## Husband and Wife Missionary Team

If a husband and wife are both duly ordained, commissioned, or licensed ministers of a church and have an agreement that each will perform specific services for which they are paid jointly or separately, they must divide the SE income according to the agreement.

If the agreement is with one spouse only and the other spouse is not paid for any specific duties, amounts received for their services are included in only the SE income of the spouse having the agreement.

## Maximum Earnings Subject to SE Tax

For 2002, the maximum net earnings from self-employment subject to social security (old age, survivors, and disability insurance) tax is \$84,900 minus any wages and tips you earned that were subject to social security tax. The tax rate for the social security part is 12.4%. In

addition, all of your net earnings are subject to the Medicare (hospital insurance) part of the SE tax. This tax rate is 2.9%. The combined self-employment tax rate is 15.3%.

## Nonfarm Optional Method

You may be able to use the nonfarm optional method for figuring your net earnings from self-employment. In general, the nonfarm optional method is intended to permit continued coverage for social security and Medicare purposes when your income for the tax year is low.

You may use the nonfarm optional method for nonfarm SE income if you meet **all** of the following tests.

- Your net nonfarm profits are less than \$1,733.
- Your net nonfarm profits are less than 72.189% of your gross income from nonfarm self-employment.
- You are self-employed or a partner on a regular basis. This means that your actual net earnings from self-employment are \$400 or more in at least 2 of the 3 tax years before the one for which you use this method.
- You have not previously used this method more than 4 years (there is a 5-year lifetime limit). The years do not have to be consecutive.

If you meet the four tests, you may report the smaller of two thirds of the gross income from your nonfarm business, or \$1,600 as your net earnings from self-employment. However, you may not report less than your actual net earnings from nonfarm self-employment.

For more information on the nonfarm optional method, get Publication 533 and Schedule SE (Form 1040).

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## Income Tax: Income and Expenses

Some income and expense items are treated the same for income tax and SE tax purposes and some are treated differently.

### Income Items

The tax treatment of offerings and fees, outside earnings, rental allowances, rental value of parsonage, pay of members of religious orders, and foreign earned income is discussed here.

### Offerings and Fees

If you are a member of the clergy, you must include in your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your salary. If the offering is made to the religious institution, it is not taxable to you.

## Outside Earnings

If you are a member of a religious organization and you give your outside earnings to the organization, you still must include the earnings in your income. However, you may be entitled to a charitable contribution deduction for the amount paid to the organization. Get Publication 526.

## Exclusion of Rental Allowance and Fair Rental Value of a Parsonage

Ordained, commissioned, or licensed ministers of the gospel may be able to exclude the rental allowance or fair rental value of a parsonage that is provided to them as pay for their services. Services include:

- Qualified services, discussed earlier,
- Administrative duties and teaching at theological seminaries, and
- The ordinary duties of a minister performed as an employee of the United States (other than as a chaplain in the Armed Forces), a state, possession, political subdivision, or the District of Columbia.

This exclusion applies only for income tax purposes. It does not apply for SE tax purposes, as discussed earlier under *Figuring Net Earnings From Self-Employment for SE Tax*.

**Designation requirement.** The church or organization that employs you must officially designate the payment as a housing allowance before the payment is made. A definite amount must be designated. The amount of the housing allowance cannot be determined at a later date.

If you are employed and paid by a local congregation, a resolution by a national church agency of your denomination does not effectively designate a housing allowance for you. The local congregation must officially designate the part of your salary that is to be a housing allowance. However, a resolution of a national church agency can designate your housing allowance if you are directly employed by the agency. If no part has been officially designated, you must include your total salary in your income.

**Rental allowances.** If you receive in your pay an amount officially designated as a rental allowance (including an amount to pay utility costs), you can exclude the allowance from your gross income if:

- The amount is used to provide or rent a home, and
- The amount is not more than reasonable pay for your services.

The amount you exclude cannot be more than the fair rental value of the home, including furnishings, plus the cost of utilities.

**Fair rental value of parsonage.** You can exclude from gross income the fair rental value of a house or parsonage, including utilities, furnished to you as part of your pay. However, the exclusion cannot be more than the reasonable pay for your services. If you pay for the utilities, you can exclude any allowance designated for utility costs, up to your actual cost.

**Example.** Rev. Joanna Baker is a full-time minister at the Central Mission Church. The church allows her to use the parsonage that has an annual fair rental value of \$4,800. The church pays her an annual salary of \$13,200, of which \$1,200 is designated for utility costs. Her utility costs during the year were \$1,000.

For income tax purposes, Rev. Baker excludes \$5,800 from gross income (the fair rental value of the parsonage plus \$1,000 from the allowance for utility costs). She will report \$12,200 (\$12,000 salary and \$200 of unused utility allowance). Her income for SE tax purposes, however, is \$18,000 (\$13,200 salary + \$4,800 fair rental value of the parsonage).

**Home ownership.** If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following.

- The amount actually used to provide a home,
- The amount officially designated as a rental allowance, or
- The fair rental value of the home, including furnishings, utilities, garage, etc.

**Excess rental allowance.** You must include in gross income the amount of any rental allowance that is more than the smallest of your reasonable pay, the fair rental value of the home plus utilities, or the amount actually used to provide a home.

Include the excess rental allowance on line 7 of Form 1040.

**TIP** You may deduct the home mortgage interest and real estate taxes you pay on your home even though all or part of the mortgage is paid with funds you get through a tax-free rental or parsonage allowance.

**Retired ministers.** If you are a retired minister, you exclude from your **gross income** the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.

**Teachers or administrators.** If you are a minister employed as a teacher or administrator by a church school, college, or university, you are performing ministerial services for purposes of the housing exclusion. However, if you perform services as a teacher or administrator on the faculty of a nonchurch college, you cannot exclude from your income a housing allowance or the value of a home that is provided to you.

**TIP** If you live in faculty lodging as an employee of an educational institution or academic health center, all or part of the value of that lodging may be nontaxable under a different rule. See Faculty lodging in the discussion on meals and lodging under Fringe Benefits, in Publication 525.

If you serve as a minister of music or minister of education, or serve in an administrative or other function of your religious organization, but are not authorized to perform substantially all of the religious duties of an ordained minister in your church (even if you are commissioned as a



**minister of the gospel**), the housing exclusion does not apply to you.

**Theological students.** If you are a theological student serving a required internship as a part-time or assistant pastor, you cannot exclude a parsonage or rental allowance from your income unless you are ordained, commissioned, or licensed as a minister.

**Traveling evangelists.** You can exclude a designated rental allowance from out-of-town churches if you meet all of the following requirements.

- You are an ordained minister.
- You perform qualified services at churches located away from your community.
- You actually use the rental allowance to maintain your permanent home.

**Cantors.** If you have a bona fide commission and your congregation employs you on a full-time basis to perform substantially all the religious functions of the Jewish faith, you can exclude a rental allowance from your gross income.

## Pay—Members of Religious Orders

Your pay may be exempt from both income tax and SE tax if you are a member of a religious order who:

- Has taken a vow of poverty,
- Receives pay for services performed as an agent of the order and in the exercise of duties required by the order, and
- Renounces the pay and gives it to the order.

See *Members of Religious Orders*, earlier, under *Social Security Coverage*.

## Foreign Earned Income

Certain income may be exempt from income tax if you work in a foreign country or in a specified U.S. possession. Publication 54 discusses the foreign earned income exclusion. Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*, covers the rules for taxpayers with income from U.S. possessions. You can get these free publications from the Internal Revenue Service or from most U.S. Embassies or consulates.

## Expense Items

The tax treatment of ministerial trade or business expenses, expenses allocable to tax-free income, and health insurance costs is discussed here.

## Ministerial Trade or Business Expenses as an Employee

When you figure your income tax, you must itemize your deductions on Schedule A (Form 1040) to claim allowable deductions for minis-

terial trade or business expenses incurred while working as an employee. You also may have to file Form 2106, *Employee Business Expenses* (or Form 2106-EZ).

These expenses are claimed as miscellaneous itemized deductions and are subject to the 2%-of-adjusted-gross-income (AGI) limit. See Publication 529 for more information on this limit.

Additionally, these expenses may have to be reduced by the amount that is allocable to tax-free income (discussed next) before being limited by the 2% AGI limit.

## Expenses Allocable to Tax-Free Income

If you receive a rental or parsonage allowance that is exempt from income tax (tax free), you must allocate a portion of the expenses of operating your ministry to that tax-free income. You cannot deduct the portion of your expenses that is allocated to your tax-free rental or parsonage allowance.

**Exception.** This rule does not apply to your deductions for home mortgage interest or real estate taxes on your home.

**Figuring the allocation.** Figure the portion of your otherwise deductible expenses that you cannot deduct (because that portion must be allocated to tax-free income) by multiplying the expenses by the following fraction:

$$\frac{\text{Tax free rental or parsonage allowance}}{\text{All income (taxable and tax-free) earned from your ministry}}$$

When figuring the allocation, include the income and expenses related to the ministerial duties you perform both as an employee and as a self-employed person.

**TIP** Reduce your otherwise deductible expenses only in figuring your income tax, not your SE tax.

**Example.** Rev. Charles Ashford received \$40,000 in ministerial earnings consisting of a \$28,000 salary for ministerial services, \$2,000 for weddings and baptisms, and a \$10,000 tax-free parsonage allowance. He incurred \$4,000 of unreimbursed expenses connected with his ministerial earnings. \$3,500 of the \$4,000 is related to his ministerial salary, and \$500 is related to the weddings and baptisms he performed as a self-employed person.

The nondeductible portion of expenses related to Rev. Ashford's ministerial salary is figured as follows:

$$(\$10,000 \div \$40,000) \times \$3,500 = \$875$$

The nondeductible portion of expenses related to Rev. Ashford's wedding and baptism income is figured as follows:

$$(\$10,000 \div \$40,000) \times \$500 = \$125$$

**Required statement.** If you receive a tax-free rental or parsonage allowance and have minis-

terial expenses, attach a statement to your tax return. The statement must contain all of the following information.

- A list of each item of taxable ministerial income by source (such as wages, salary, weddings, baptisms, etc.) plus the amount.
- A list of each item of tax-free ministerial income by source (parsonage allowance) plus the amount.
- A list of each item of otherwise deductible ministerial expenses plus the amount.
- How you figured the nondeductible part of your otherwise deductible expenses.
- A statement that the other deductions claimed on your tax return are not allocable to your tax-free income.

See the statement prepared for the *Comprehensive Example*, later.

## Health Insurance Costs of Self-Employed Ministers

If you are self-employed, you may be able to deduct a percentage of the amount you pay for health insurance premiums and qualified long-term care insurance for yourself and your family. For 2002, the percentage is 70%.

If you qualify, you can take this deduction as an adjustment to income on line 30, Form 1040. There is a worksheet in the instructions for Form 1040 that you can use to figure this deduction.

The following special rules apply to the self-employed health insurance deduction.

- The expenses taken into account for purposes of this deduction are not allowed as a medical expense deduction on Schedule A.
- The deduction is not allowed for any month you are eligible to participate in a subsidized plan of your (or your spouse's) employer.
- The deduction is not used to reduce your net earnings for your SE tax.
- The deduction cannot exceed your net earnings from the business under which the insurance plan is established. Your net earnings under this rule do **not** include the income you earned as a common-law employee (discussed earlier) of a church.

**More information.** For more information about the self-employed health insurance deduction, see chapter 7 in Publication 535.

## Deduction for SE Tax

You can deduct one-half of your SE tax in figuring adjusted gross income. This is an income tax deduction only, and you deduct it on line 29 of Form 1040.



*This is not a deduction in figuring net earnings from self-employment subject to SE tax.*

## Income Tax Withholding and Estimated Tax

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her pay. However, your pay generally is **not** subject to federal income tax withholding if both the following conditions apply.

- You are a duly ordained, commissioned, or licensed minister, a member of a religious order (who has not taken a vow of poverty), or a Christian Science practitioner.
- Your pay is for qualified services (see *Qualified Services*, earlier).

If your salary is not subject to withholding, or if you do not pay enough tax through withholding, you might have to pay estimated tax to avoid penalties for not paying enough tax as you earn your income.

You generally must make estimated tax payments if you expect to owe taxes, including self-employment tax, of \$1,000 or more, when you file your return.

Determine your estimated tax by using the worksheet in Form 1040-ES. Then, using the Form 1040-ES payment voucher, pay the entire estimated tax or the first installment by April 15, 2003. The April 15 date applies whether or not your tax home and your abode are outside the United States and Puerto Rico. For more information, get Publication 505, *Tax Withholding and Estimated Tax*.

If you perform your services as a common-law employee of the church and your pay is not subject to income tax withholding, you can enter into a voluntary withholding agreement with the church to cover any income and SE tax that may be due.

## Filing Your Return

You have to file an income tax return for 2002 if your gross income was at least the amount shown in the second column of Table 4. (Gross income means all income you received in the form of money, goods, property, and services that is not exempt from income tax.)

**Additional requirements.** Even if your income was less than the amount shown above, you must file an income tax return on Form 1040, and attach a completed Schedule SE (Form 1040), if:

- You are not exempt from SE tax, and you have net earnings from self-employment (discussed earlier under *Figuring Net Earnings From Self-Employment for SE Tax*) of \$400 or more in the tax year,
- You are exempt from SE tax on earnings from qualified services and you have \$400 or more of other earnings subject to SE tax, or
- You had wages of \$108.28 or more from an electing church or church-controlled organization (discussed earlier under *Religious Workers (Church Employees)*).

**Self-employment tax.** If you are liable for SE tax, you must file Schedule SE (Form 1040) with your return.

**Exemption from SE tax.** If you filed Form 4361 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE (Form 1040). Instead, write "Exempt—Form 4361" on Form 1040, line 56.

If you filed Form 4029 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE (Form 1040). Instead, write "Exempt—Form 4029" on Form 1040, line 56.

**More information.** For more information on filing your return, including when and where to file it, see the instructions for Form 1040.

## Retirement Savings Arrangements

Retirement savings arrangements are plans that offer you a tax-favored way to save for your retirement. You generally can deduct your contributions to the plan. Your contributions and the earnings on them are not taxed until they are distributed.

**Retirement plans for the self-employed.** To set up a qualified retirement plan (also called a Keogh or H.R. 10 plan), a simplified employee pension (SEP) plan, or a SIMPLE plan, you must be self-employed.

The common-law rules determine whether you are an employee or a self-employed person

for purposes of setting up a retirement plan. See *Employment Status for Other Tax Purposes*, earlier. This is true even if your pay for qualified services (discussed earlier) is subject to SE tax.

For example, if a congregation pays you a salary for performing qualified services, and you are subject to the congregation's control, you are a common-law employee. You are not a self-employed person for purposes of setting up a retirement plan. This is true even if your salary is subject to SE tax.

On the other hand, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services that are reported on Schedule C or C-EZ, are earnings from self-employment for all tax purposes.

For more information on establishing a SEP, SIMPLE, or qualified retirement plan, get Publication 560, *Retirement Plans for Small Business*.

### Individual retirement arrangements (IRAs).

The traditional IRA and the Roth IRA are two individual retirement arrangements you can use to save money for your retirement. You generally are allowed to make contributions to either a traditional or a Roth IRA of up to \$3,000 (\$3,500 if you are age 50 or older) for 2002, or the amount of your pay, whichever is less. \$3,000 (\$3,500 if you are age 50 or older) is the most you can contribute for 2002 regardless of whether you contribute to one or both of these IRAs. Contributions to a traditional IRA may be deductible. Your deduction for contributions to your traditional IRA may be reduced or eliminated if you or your spouse is covered by an employer retirement plan (including, but not limited to a SEP or SIMPLE, or qualified retirement plan). Unlike contributions to a traditional IRA,

Table 4. Who Must File

Filing Status Is:	Income At Least:
Single	
Under 65 . . . . .	7,700
65* or older . . . . .	8,850
Married, filing jointly	
Both under 65 . . . . .	13,850
One spouse 65* or older . . . . .	14,750
Both 65* or older . . . . .	15,650
Not living with spouse at end of year (or on date spouse died) . . . . .	3,000
Married, filing separately	
All (any age) . . . . .	3,000
Head of household	
Under 65 . . . . .	9,900
65* or older . . . . .	11,050
Qualifying widow(er) with dependent child	
Under 65 . . . . .	10,850
65* or older . . . . .	11,750

\* If your 65th birthday is on January 1, 2003, you are considered to be age 65 at the end of 2002.

contributions to a Roth IRA are **not** deductible. However, if you satisfy certain requirements, all earnings in the Roth IRA are tax free and neither your nondeductible contributions nor any earnings on them are taxable when you withdraw them.

For more information on IRAs, get Publication 590.

**Tax-sheltered annuity plans.** Church employees, members of religious orders, and duly ordained, commissioned, or licensed ministers working as ministers or chaplains can participate in tax-sheltered annuity (403(b)) plans. For more information, see Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations*.

**Deducting contributions to tax-sheltered annuity plans.** You generally cannot deduct contributions to a tax-sheltered annuity (403(b)) plan on your tax return. However, an exception applies to your contributions if you are a minister or chaplain and, in the exercise of your ministry, you are either self-employed or employed by an organization that is not exempt from tax under section 501(c)(3) of the Internal Revenue Code and with that you do not share common religious bonds. If the exception applies, you can deduct your contributions to a 403(b) plan as explained below.

- If you **are** self-employed, deduct your contributions on line 31 of Form 1040.
- If you **are not** self-employed, deduct your contributions on line 34 of Form 1040. Write "403(b)" on the dotted line next to line 34.

**Retirement savings contributions credit.** You may be able to take a tax credit for certain contributions you make to any of the retirement plans or IRAs discussed above. The amount of the credit is based on the contributions you make and your credit rate. The maximum contribution eligible for the credit is \$2,000. The credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. You figure the credit on Form 8880, *Credit for Qualified Retirement Savings Contributions*.

You **cannot** take the credit if any of the following apply.

- 1) You were born after January 1, 1985.
- 2) You were a full-time student in 2002.
- 3) Someone, such as your parent(s), claims an exemption for you on his or her 2002 tax return.
- 4) Your adjusted gross income for 2002 is more than:
  - a) \$25,000, if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.
  - b) \$37,500, if your filing status is head of household.
  - c) \$50,000, if your filing status is married filing jointly.

When figuring adjusted gross income, you must add back any exclusion or deduction claimed for the year for:

- 1) Foreign earned income,
- 2) Foreign housing costs,
- 3) Income for bona fide residents of American Samoa, and
- 4) Income from Puerto Rico.

**More information.** For more information about the credit, see Publication 590.

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## Earned Income Credit

The earned income credit is a special credit for certain people who work. If you qualify for it, the earned income credit reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Also, you may be able to get part of the credit added to your pay instead of waiting until after the end of the year.

You cannot take the credit if your earned income (or adjusted gross income, if greater) is:

- \$11,060 or more (\$12,060 or more for married filing jointly) and you do not have a qualifying child,
- \$29,201 or more (\$30,201 or more for married filing jointly) and you have one qualifying child, or
- \$33,178 or more (\$34,178 or more for married filing jointly) and you have more than one qualifying child.

**Earned income.** Earned income includes your:

- Wages, salaries, tips, and
- Net earnings from self-employment minus the amount you claimed (or should have claimed) on Form 1040, line 29, for one-half of your SE tax.

**Earned income for a minister with an approved Form 4361.** If you have earnings from qualified services that are exempt from SECA (have an approved Form 4361), amounts you received for performing ministerial duties as an employee are earned income. This includes wages, salaries, tips, and other taxable employee pay.

Amounts you received for nonemployee ministerial duties are not earned income. This includes fees for performing marriages and baptisms, and honoraria for delivering speeches.

If you had nonministerial duties, any net earnings from self-employment, minus one-half of your SE tax, and any pay received as an employee, is earned income.

**Earned income for a minister whose income from qualified services is not exempt from SECA.** Earned income includes your net earnings from self-employment plus any pay you received for nonministerial duties minus your Form 1040, line 29, amount for one-half of SE tax.

Your net earnings from self-employment include those net earnings from qualified services. See *Figuring Net Earnings From Self-Employment for SE Tax*, earlier. Net earnings also in-

clude net earnings from self-employment related to nonministerial duties.

**Earned income for a member of a recognized religious sect with an approved Form 4029.** If you have an approved Form 4029, all wages, salaries, tips, and other taxable employee compensation are earned income. Amounts you received as a self-employed individual are not earned income. Also, in figuring earned income, losses from Schedules C, C-EZ, or F cannot be subtracted from wages on line 7 of Form 1040.

**More information.** For the detailed rules on this credit, get Publication 596. To figure the amount of your credit, you can either fill out a worksheet or have the IRS compute the credit for you. You may need to complete Schedule EIC and attach it to your tax return. For details on getting part of the credit added to your pay, get Form W-5, *Earned Income Credit Advance Payment Certificate*, from your employer or the IRS.

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## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.


The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

**Free tax services.** To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

 **Personal computer.** With your personal computer and modem, you can access the IRS on the Internet at [www.irs.gov](http://www.irs.gov). While visiting our web site, you can:

- See answers to frequently asked tax questions or request help by e-mail.

- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- Get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at <ftp.irs.gov>.



**TaxFax Service.** Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *Solving problems.* Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or [www.irs.gov](http://www.irs.gov) for the numbers.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



**Walk-in.** Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.



**Mail.** You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**  
Western Area Distribution Center  
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**  
Central Area Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**  
Eastern Area Distribution Center  
P.O. Box 85074  
Richmond, VA 23261-5074



**CD-ROM for tax products.** You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at <http://www.irs.gov/cdorders>. The first release is available in early January and the final release is available in late February.



**CD-ROM for small businesses.** IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a

business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in March. You can get a free copy by calling **1-800-829-3676** or by visiting the website at [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz).

## Comprehensive Example

Rev. John Michaels is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from SE tax.

The church paid Rev. Michaels a salary of \$31,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$8,400. He taught a course at the local community college, for which he was paid \$3,400.

Rev. Michaels owns a home next to the church. He makes an \$800 per month mortgage payment of principal and interest only. The church paid him \$800 per month as his parsonage allowance (excluding utilities). The home's fair rental value is \$900 per month. The utility bills for the year totaled \$960. The church paid him \$100 per month designated as an allowance for utility costs.

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that the Rev. Michaels will assemble the return to send it to the IRS.

### Form W-2 From Church

The church completed its Form W-2 for Rev. Michaels as follows:

**Box 1.** The church entered Rev. Michaels' \$31,000 salary.

**Box 2.** The church left this box blank because Rev. Michaels did not request federal income tax withholding.

**Boxes 3 through 6.** Rev. Michaels is considered a self-employed person for purposes of social security and Medicare tax withholding, so the church left these boxes blank.

**Box 14.** The church entered Rev. Michaels' total parsonage and utilities allowance for the year and identified them.

### Form W-2 From College

The community college gave Rev. Michaels a Form W-2 that showed the following.

**Box 1.** The college entered Rev. Michaels' \$3,400 salary.

**Box 2.** The college withheld \$272 in federal income tax on Rev. Michaels' behalf.

**Boxes 3 and 5.** As an employee of the college, Rev. Michaels is subject to social security and Medicare withholding on his full salary from the college.

**Box 4.** The college withheld \$210.80 in social security taxes.

**Box 6.** The college withheld \$49.30 in Medicare taxes.

## Schedule C–EZ (Form 1040)

Some of Rev. Michaels' entries on Schedule C–EZ are explained here.

**Line 1.** Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria.

**Line 2.** Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of \$87 for marriage and family booklets and \$174 for 477 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 36.5 cents by 477 miles to get \$174.

These expenses total \$261 (\$174 + \$87). However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 23% (or \$60) of his business expenses are not deductible because they are allocable to that allowance. He subtracts the \$60 from the \$261 and enters the \$201 difference on line 2.

**Line 3.** He enters his net profit of \$3,799 both on line 3 and on Form 1040, line 12.

**Lines 4 through 8b.** Rev. Michaels fills out these lines to report information about his car.

## Form 2106–EZ

Rev. Michaels fills out Form 2106–EZ to report the unreimbursed business expenses he had as a common-law employee of First United Church.

**Line 1.** Before completing line 1, Rev. Michaels fills out Part II because he used his car for church business. His records show that he drove 2,708 business miles, which he reports in Part II. On line 1, he multiplies 2,708 miles by the

mileage rate of 36.5 cents for the year. The result is \$988.

**Line 4.** He enters \$219 for his professional publications and booklets.

**Line 6.** Before entering the total expenses on line 6, Rev. Michaels must reduce them by the amount allocable to his tax-free parsonage allowance. On the required Attachment 1 (shown later), he shows that 23% (or \$278) of his employee business expenses are not deductible because they are allocable to the tax-free parsonage allowance. He subtracts \$278 from \$1,207 and enters the result, \$929, on line 6. He also enters \$929 on line 20 of Schedule A (Form 1040).

## Schedule A (Form 1040)

Rev. Michaels fills out Schedule A as explained here.

**Line 6.** Rev. Michaels deducts \$1,750 in real estate taxes.

**Line 10.** He deducts \$6,810 of home mortgage interest.

**Line 15.** Rev. and Mrs. Michaels contributed \$4,800 in cash during the year to various qualifying charities. Each individual contribution was less than \$250.

**Line 20.** Rev. Michaels enters his unreimbursed employee business expenses from Form 2106–EZ, line 6.

**Lines 24, 25, and 26.** He can deduct only the part of his employee business expenses that exceeds 2% of his adjusted gross income. He fills out these lines to figure the amount he can deduct.

**Line 28.** The total of all the Michaels' itemized deductions is \$13,583, which they enter on line 28 and on Form 1040, line 38.

## Schedule SE (Form 1040)

After Rev. Michaels prepares Schedule C–EZ and Form 2106–EZ, he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule which tells him he can use *Section A—Short Schedule SE* to figure his self-employment tax. Rev. Michaels is a minister, so his salary from the church is not considered church employee income. Thus, he does not have to use *Section B—Long Schedule SE*. He fills out the following lines in Section A.

**Line 2.** Rev. Michaels attaches a statement (see Attachment 2, later) that explains how he figures the amount (\$44,332) to enter.

**Line 4.** He multiplies \$44,332 by .9235 to get his net earnings from self-employment (\$40,941).

**Line 5.** The amount on line 4 is less than \$84,900, so Rev. Michaels multiplies the amount on line 4 (\$40,941) by .153 to get his self-employment tax of \$6,264. He enters that amount here and on Form 1040, line 56.

**Line 6.** Rev. Michaels multiplies the amount on line 5 by .5 to get his deduction for one-half of self-employment tax of \$3,132. He enters that amount here and on Form 1040, line 29.

## Form 1040

After Rev. Michaels prepares Form 2106–EZ and the other schedules, he fills out Form 1040. He files a joint return with his wife. First he fills out the address area and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the form as follows:

**Line 7.** Rev. Michaels reports \$34,640. This amount is the total of his \$31,000 church salary, \$3,400 college salary, and \$240, the excess of his utility allowance over his utility costs. The two salaries were reported to him in box 1 of the Forms W–2 he received.

**Line 12.** He reports his net profit of \$3,799 from Schedule C–EZ, line 3.

**Line 29.** He enters \$3,132, half his SE tax from Schedule SE, line 6.


**Line 38.** He enters the total itemized deductions from Schedule A, line 28.

**Line 50.** The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the *Child Tax Credit Worksheet* (not shown) in the instructions for Form 1040. He enters the \$600 credit on line 50.

**Line 56.** He enters the self-employment tax from Schedule SE, line 5.

**Line 62.** He enters the federal income tax shown in box 2 of his Form W–2 from the college.


**Line 63.** He enters the \$8,400 estimated tax payments he made for the year.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS Web Site at <a href="http://www.irs.gov">www.irs.gov</a>	
b Employer identification number 00-1357913				1 Wages, tips, other compensation 3400.00		2 Federal income tax withheld 272.00	
c Employer's name, address, and ZIP code  Hometown College 40 Honor Road Hometown, Texas 77099				3 Social security wages 3400.00		4 Social security tax withheld 210.80	
				5 Medicare wages and tips 3400.00		6 Medicare tax withheld 49.30	
				7 Social security tips		8 Allocated tips	
d Employee's social security number 011-00-2222				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name  John E. Michaels 1040 Main Street Hometown, TX 77099				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** **2002**

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return. (Rev. February 2002)  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS Web Site at <a href="http://www.irs.gov">www.irs.gov</a>	
b Employer identification number 00-0246810				1 Wages, tips, other compensation 31000.00		2 Federal income tax withheld	
c Employer's name, address, and ZIP code  First United Church 1042 Main Street Hometown, Texas 77099				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 Employee's social security number 011-00-2222				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name  John E. Michaels 1040 Main Street Hometown, TX 77099				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
				14 Other Parsonage Allowance 9600.00 Utilities Allowance 1200.00		12c	
						12d	
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** **2002**

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return. (Rev. February 2002)  
This information is being furnished to the Internal Revenue Service.

Label

(See instructions on page 21.) Use the IRS label. Otherwise, please print or type.

Label Here

For the year Jan. 1–Dec. 31, 2002, or other tax year beginning , 2002, ending , 20
Your first name and initial Last name
John E. Michaels
If a joint return, spouse's first name and initial Last name
Susan R. Michaels
Home address (number and street). If you have a P.O. box, see page 21. Apt. no.
1040 Main Street
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.
Hometown, TX 77099

OMB No. 1545-0074
Your social security number
011 00 2222
Spouse's social security number
011 00 1111

Important! You must enter your SSN(s) above.

Presidential Election Campaign

Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? [X] Yes [ ] No [X] Yes [ ] No

Filing Status

Check only one box.

- 1 [ ] Single
2 [X] Married filing jointly (even if only one had income)
3 [ ] Married filing separately. Enter spouse's SSN above and full name here.
4 [ ] Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 [ ] Qualifying widow(er) with dependent child (year spouse died ). (See page 21.)

Exemptions

If more than five dependents, see page 22.

6a [X] Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a
b [X] Spouse
c Dependents:
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) [X] if qualifying child for child tax credit (see page 22)
Jennifer Michaels 111 00 1113 daughter
d Total number of exemptions claimed 3

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 23.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Table with 5 columns: Line number, Description, Amount, Taxable amount, Total. Includes lines 7-35 for various income and deduction items.

Adjusted Gross Income

**Tax and Credits**

**Standard Deduction for—**

• People who checked any box on line 37a or 37b or who can be claimed as a dependent, see page 34.

• All others:  
 Single, \$4,700  
 Head of household, \$6,900  
 Married filing jointly or Qualifying widow(er), \$7,850  
 Married filing separately, \$3,925

<b>36</b>	Amount from line 35 (adjusted gross income)	<b>36</b>	35,307
<b>37a</b>	Check if: <input type="checkbox"/> You were 65 or older, <input type="checkbox"/> Blind; <input type="checkbox"/> Spouse was 65 or older, <input type="checkbox"/> Blind. Add the number of boxes checked above and enter the total here <b>▶ 37a</b>		
<b>b</b>	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here. <b>▶ 37b</b> <input type="checkbox"/>		
<b>38</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin)	<b>38</b>	13,583
<b>39</b>	Subtract line 38 from line 36	<b>39</b>	21,724
<b>40</b>	If line 36 is \$103,000 or less, multiply \$3,000 by the total number of exemptions claimed on line 6d. If line 36 is over \$103,000, see the worksheet on page 35	<b>40</b>	9,000
<b>41</b>	<b>Taxable income.</b> Subtract line 40 from line 39. If line 40 is more than line 39, enter -0-	<b>41</b>	12,724
<b>42</b>	<b>Tax</b> (see page 36). Check if any tax is from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972	<b>42</b>	1,309
<b>43</b>	<b>Alternative minimum tax</b> (see page 37). Attach Form 6251	<b>43</b>	
<b>44</b>	Add lines 42 and 43 <b>▶</b>	<b>44</b>	1,309
<b>45</b>	Foreign tax credit. Attach Form 1116 if required	<b>45</b>	
<b>46</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>46</b>	
<b>47</b>	Credit for the elderly or the disabled. Attach Schedule R	<b>47</b>	
<b>48</b>	Education credits. Attach Form 8863	<b>48</b>	
<b>49</b>	Retirement savings contributions credit. Attach Form 8880	<b>49</b>	
<b>50</b>	Child tax credit (see page 39)	<b>50</b>	600
<b>51</b>	Adoption credit. Attach Form 8839	<b>51</b>	
<b>52</b>	Credits from: <b>a</b> <input type="checkbox"/> Form 8396 <b>b</b> <input type="checkbox"/> Form 8859	<b>52</b>	
<b>53</b>	Other credits. Check applicable box(es): <b>a</b> <input type="checkbox"/> Form 3800 <b>b</b> <input type="checkbox"/> Form 8801 <b>c</b> <input type="checkbox"/> Specify	<b>53</b>	
<b>54</b>	Add lines 45 through 53. These are your <b>total credits</b>	<b>54</b>	600
<b>55</b>	Subtract line 54 from line 44. If line 54 is more than line 44, enter -0- <b>▶</b>	<b>55</b>	709

**Other Taxes**

<b>56</b>	Self-employment tax. Attach Schedule SE	<b>56</b>	6,264
<b>57</b>	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	<b>57</b>	
<b>58</b>	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required.	<b>58</b>	
<b>59</b>	Advance earned income credit payments from Form(s) W-2	<b>59</b>	
<b>60</b>	Household employment taxes. Attach Schedule H	<b>60</b>	
<b>61</b>	Add lines 55 through 60. This is your <b>total tax</b> <b>▶</b>	<b>61</b>	6,973

**Payments**

If you have a qualifying child, attach Schedule EIC.

<b>62</b>	Federal income tax withheld from Forms W-2 and 1099	<b>62</b>	272
<b>63</b>	2002 estimated tax payments and amount applied from 2001 return	<b>63</b>	8,400
<b>64</b>	<b>Earned income credit (EIC)</b>	<b>64</b>	
<b>65</b>	Excess social security and tier 1 RRTA tax withheld (see page 56)	<b>65</b>	
<b>66</b>	Additional child tax credit. Attach Form 8812	<b>66</b>	
<b>67</b>	Amount paid with request for extension to file (see page 56)	<b>67</b>	
<b>68</b>	Other payments from: <b>a</b> <input type="checkbox"/> Form 2439 <b>b</b> <input type="checkbox"/> Form 4136 <b>c</b> <input type="checkbox"/> Form 8885	<b>68</b>	
<b>69</b>	Add lines 62 through 68. These are your <b>total payments</b> <b>▶</b>	<b>69</b>	8,672

**Refund**

Direct deposit? See page 56 and fill in 71b, 71c, and 71d.

<b>70</b>	If line 69 is more than line 61, subtract line 61 from line 69. This is the amount you <b>overpaid</b>	<b>70</b>	1,699
<b>71a</b>	Amount of line 70 you want <b>refunded to you</b> <b>▶</b>	<b>71a</b>	
<b>b</b>	Routing number <input type="text"/>	<b>c</b>	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b>	Account number <input type="text"/>		
<b>72</b>	Amount of line 70 you want <b>applied to your 2003 estimated tax</b> <b>▶</b>	<b>72</b>	1,699

**Amount You Owe**

<b>73</b>	<b>Amount you owe.</b> Subtract line 69 from line 61. For details on how to pay, see page 57 <b>▶</b>	<b>73</b>	
<b>74</b>	Estimated tax penalty (see page 57)	<b>74</b>	

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS (see page 58)?  **Yes.** Complete the following.  **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.

Joint return? See page 21. Keep a copy for your records.	Your signature	Date	Your occupation	Daytime phone number
	John E. Michaels	3/1/2003	Minister	( )
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	
	Susan R. Michaels	3/1/2003	Homemaker	

**Paid Preparer's Use Only**

Preparer's signature  Date  Check if self-employed  Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code  EIN  Phone no. ( )



**SCHEDULES A&B**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Schedule A—Itemized Deductions**

(Schedule B is on back)

OMB No. 1545-0074

**2002**

Attachment  
Sequence No. **07**

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

Name(s) shown on Form 1040

John E. Michaels and Susan R. Michaels

Your social security number

011 00 2222

<b>Medical and Dental Expenses</b>	<b>1</b>	<b>Caution.</b> Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2)	<b>1</b>			
	<b>2</b>	Enter amount from Form 1040, line 36	<b>2</b>			
	<b>3</b>	Multiply line 2 by 7.5% (.075)	<b>3</b>			
	<b>4</b>	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	<b>4</b>			
<b>Taxes You Paid</b> (See page A-2.)	<b>5</b>	State and local income taxes	<b>5</b>			
	<b>6</b>	Real estate taxes (see page A-2)	<b>6</b>	1,750		
	<b>7</b>	Personal property taxes	<b>7</b>			
	<b>8</b>	Other taxes. List type and amount ▶	<b>8</b>			
	<b>9</b>	Add lines 5 through 8	<b>9</b>			1,750
<b>Interest You Paid</b> (See page A-3.)	<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>	6,810		
	<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	<b>11</b>			
	<b>12</b>	Points not reported to you on Form 1098. See page A-3 for special rules	<b>12</b>			
	<b>13</b>	Investment interest. Attach Form 4952 if required. (See page A-3.)	<b>13</b>			
<b>Note.</b> Personal interest is not deductible.	<b>14</b>	Add lines 10 through 13	<b>14</b>			6,810
<b>Gifts to Charity</b> If you made a gift and got a benefit for it, see page A-4.	<b>15</b>	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4.	<b>15</b>	4,800		
	<b>16</b>	Other than by cash or check. If any gift of \$250 or more, see page A-4. You <b>must</b> attach Form 8283 if over \$500	<b>16</b>			
	<b>17</b>	Carryover from prior year	<b>17</b>			
	<b>18</b>	Add lines 15 through 17	<b>18</b>			4,800
<b>Casualty and Theft Losses</b>	<b>19</b>	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	<b>19</b>			
<b>Job Expenses and Most Other Miscellaneous Deductions</b> (See page A-5 for expenses to deduct here.)	<b>20</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. You <b>must</b> attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	<b>20</b>	929		
	<b>21</b>	Tax preparation fees	<b>21</b>			
	<b>22</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶	<b>22</b>			
	<b>23</b>	Add lines 20 through 22	<b>23</b>	929		
	<b>24</b>	Enter amount from Form 1040, line 36	<b>24</b>	35,307		
	<b>25</b>	Multiply line 24 by 2% (.02)	<b>25</b>	706		
<b>26</b>	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	<b>26</b>			223	
<b>Other Miscellaneous Deductions</b>	<b>27</b>	Other—from list on page A-6. List type and amount ▶	<b>27</b>			
<b>Total Itemized Deductions</b>	<b>28</b>	Is Form 1040, line 36, over \$137,300 (over \$68,650 if married filing separately)? <input type="checkbox"/> <b>No.</b> Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 38. <input type="checkbox"/> <b>Yes.</b> Your deduction may be limited. See page A-6 for the amount to enter.	<b>28</b>			13,583

**SCHEDULE C-EZ  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Net Profit From Business**  
(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**  
▶ **Attach to Form 1040 or 1041. ▶ See instructions on back.**

OMB No. 1545-0074

**2002**

Attachment  
Sequence No. **09A**

Name of proprietor

John E. Michaels

Social security number (SSN)

011 00 2222

**Part I General Information**

**You May Use  
Schedule C-EZ  
Instead of  
Schedule C  
Only If You:**

- Had business expenses of \$2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

**And You:**

- Had no employees during the year.
- Are not required to file **Form 4562**, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-4 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

**A** Principal business or profession, including product or service  
Minister

**B** Enter code from pages C-7, 8, & 9  
5 | 4 | 1 | 9 | 9 | 0

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN), if any

**E** Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.  
1042 Main Street

City, town or post office, state, and ZIP code  
Hometown, TX 77099

**Part II Figure Your Net Profit**

<b>1</b> <b>Gross receipts. Caution.</b> If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <b>Statutory Employees</b> in the instructions for Schedule C, line 1, on page C-3 and check here . . . . . <input type="checkbox"/>	<b>1</b>	4,000	
<b>2</b> <b>Total expenses</b> (see instructions). If more than \$2,500, you <b>must</b> use Schedule C . . . . .	<b>2</b>	201*	
<b>3</b> <b>Net profit.</b> Subtract line 2 from line 1. If less than zero, you <b>must</b> use Schedule C. Enter on <b>Form 1040, line 12</b> , and <b>also</b> on <b>Schedule SE, line 2</b> . (Statutory employees <b>do not</b> report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.) . . . . .	<b>3</b>	3,799	

**Part III Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 2.

- 4** When did you place your vehicle in service for business purposes? (month, day, year) ▶ 7 / 15 / 99
- 5** Of the total number of miles you drove your vehicle during 2002, enter the number of miles you used your vehicle for:
- a** Business 477 **b** Commuting -0- **c** Other 7,229
- 6** Do you (or your spouse) have another vehicle available for personal use? . . . . .  **Yes**  **No**
- 7** Was your vehicle available for personal use during off-duty hours? . . . . .  **Yes**  **No**
- 8a** Do you have evidence to support your deduction? . . . . .  **Yes**  **No**
- b** If "Yes," is the evidence written? . . . . .  **Yes**  **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 14374D

Schedule C-EZ (Form 1040) 2002

\* See Attached Statement.

**Self-Employment Tax**

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule SE (Form 1040).**

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

John E. Michaels

Social security number of person  
with **self-employment** income ▶

011 : 00 : 2222

**Who Must File Schedule SE**

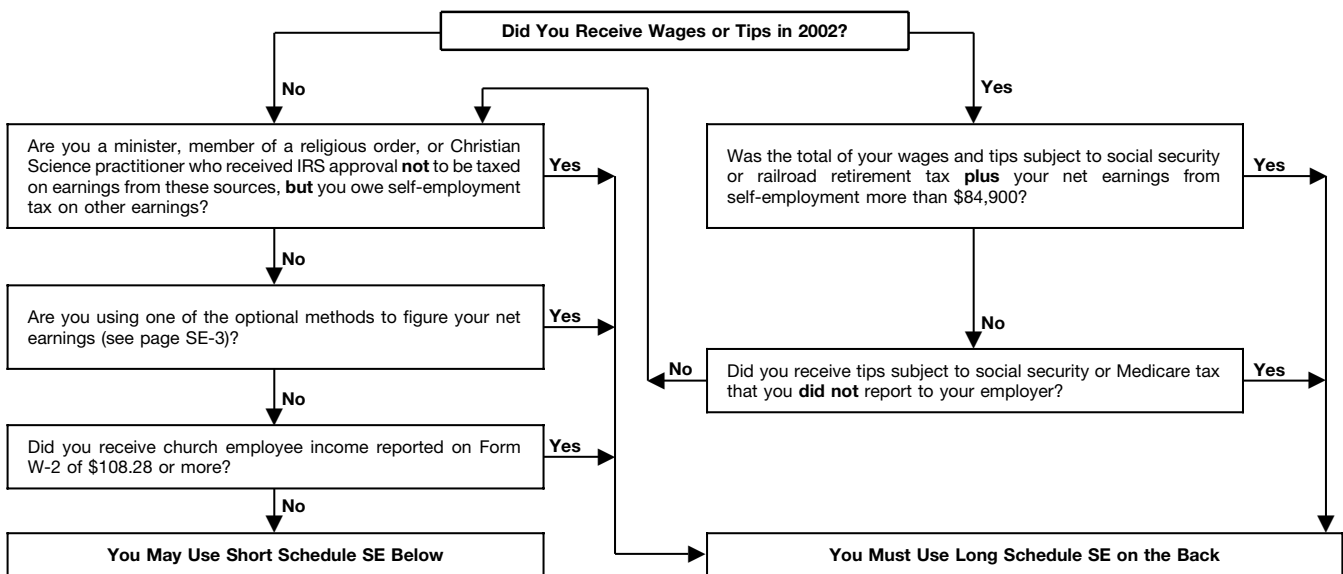
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

**Note.** Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

**Exception.** If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 56.

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



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

<b>1</b>	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a . . . . .		
<b>2</b>	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report . . . . .	44,332*	
<b>3</b>	Combine lines 1 and 2 . . . . .	44,332	
<b>4</b>	<b>Net earnings from self-employment.</b> Multiply line 3 by 92.35% (.9235). If less than \$400, <b>do not</b> file this schedule; you do not owe self-employment tax . . . . . ▶	40,941	
<b>5</b>	<b>Self-employment tax.</b> If the amount on line 4 is: <ul style="list-style-type: none"> <li>• \$84,900 or less, multiply line 4 by 15.3% (.153). Enter the result here and on <b>Form 1040, line 56.</b></li> <li>• More than \$84,900, multiply line 4 by 2.9% (.029). Then, add \$10,527.60 to the result. Enter the total here and on <b>Form 1040, line 56.</b></li> </ul>	6,264	
<b>6</b>	<b>Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (.5). Enter the result here and on <b>Form 1040, line 29.</b> . . . . .	3,132	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2002

\* See Attached Statement.

**Unreimbursed Employee Business Expenses**

**2002**

Attachment Sequence No. **54A**

Department of the Treasury  
Internal Revenue Service

▶ **Attach to Form 1040.**

Your name <i>John E. Michaels</i>	Occupation in which you incurred expenses <i>Minister</i>	Social security number <i>011 00 2222</i>
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**You May Use This Form Only if All of the Following Apply.**

- You are an employee deducting ordinary and necessary expenses attributable to your job. An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.
- You **do not** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2002.

**Caution:** You can use the standard mileage rate for 2002 **only if:** (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service or (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

**Part I Figure Your Expenses**

1 Vehicle expense using the standard mileage rate. Complete Part II and multiply line 8a by 36½¢ (.365)	<b>1</b>	<i>988</i>	
2 Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work	<b>2</b>		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment.	<b>3</b>		
4 Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment	<b>4</b>	<i>219</i>	
5 Meals and entertainment expenses: \$ _____ x 50% (.50) (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	<b>5</b>		
6 <b>Total expenses.</b> Add lines 1 through 5. Enter here and on line 20 of Schedule A (Form 1040). (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.)	<b>6</b>	<i>929*</i>	

**Part II Information on Your Vehicle.** Complete this part **only** if you are claiming vehicle expense on line 1.

7 When did you place your vehicle in service for business use? (month, day, year) ▶ *7* / *15* / *99*

8 Of the total number of miles you drove your vehicle during 2002, enter the number of miles you used your vehicle for:  
 a Business *2,708*      b Commuting *0*      c Other *4,998*

9 Do you (or your spouse) have another vehicle available for personal use?       **Yes**     **No**

10 Was your vehicle available for personal use during off-duty hours?       **Yes**     **No**

11a Do you have evidence to support your deduction?       **Yes**     **No**

b If "Yes," is the evidence written?       **Yes**     **No**

**General Instructions**

Section references are to the Internal Revenue Code.

**Changes To Note**

**Standard mileage rate.** The standard mileage rate has been increased to 36½ cents for each mile of business use in 2002.

**Meal expenses.** The percentage of meal expenses that may be deducted by employees subject to Department of Transportation (DOT) hours of service limits has been increased to 65% for 2002.

**Purpose of Form**

You may use Form 2106-EZ instead of Form 2106 to claim your unreimbursed employee business expenses if you meet all the requirements listed above Part I.

**Recordkeeping**

You cannot deduct expenses for travel (including meals, unless you used the standard meal allowance), entertainment,

gifts, or use of a car or other listed property, unless you keep records to prove the time, place, business purpose, business relationship (for entertainment and gifts), and amounts of these expenses. Generally, you must also have receipts for all lodging expenses (regardless of the amount) and any other expense of \$75 or more.

**Additional Information**

For more details about employee business expenses, see:  
**Pub. 463,** Travel, Entertainment, Gift, and Car Expenses  
**Pub. 529,** Miscellaneous Deductions  
**Pub. 587,** Business Use of Your Home (Including Use by Day-Care Providers)  
**Pub. 946,** How To Depreciate Property

**Specific Instructions**

**Part I—Figure Your Expenses**

**Line 2.** See the line 8b instructions for the definition of commuting.

**Line 3.** Enter lodging and transportation expenses connected with overnight travel away from your tax home (defined below). You cannot deduct expenses for travel away from your tax home for any period of temporary employment of more than 1 year. **Do not** include expenses for meals and entertainment. For more details, including limits, see Pub. 463.

Generally, your **tax home** is your main place of business or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit in either of these categories, you are considered an itinerant and your tax home is wherever you work. As an itinerant, you are never away from home and cannot claim a travel expense deduction. For more details on your tax home, see Pub. 463.

**Line 4.** Enter other job-related expenses not listed on any other line of this form. Include expenses for business gifts, education (tuition and books), home office, trade publications,

Attachment 1. **Computation of expenses, allocable to tax-free ministerial income, that are nondeductible**

	Taxable	Tax-Free	Total
Salary as a minister	\$ 31,000		\$ 31,000
Parsonage allowance—Mortgage (\$800 x 12)		\$ 9,600	9,600
Utilities (\$100 x 12)	\$ 1,200		
Minus actual costs		960	960
Excess utilities	\$ 240		240
Gross income from weddings, baptisms, and honoraria		4,000	4,000
Ministerial income	\$ 35,240	\$ 10,560	\$ 45,800
Percentage of nondeductible expenses: \$10,560 ÷ \$45,800 = 23%			

<b>Schedule C—EZ Deduction Computation</b>			
Marriage and family booklets		\$	87
Business use of car: (477 miles x 36.5¢)			174
Unadjusted Schedule C—EZ expense		\$	261
Minus:			
Nondeductible part of Schedule C—EZ expenses (23% x \$261)			-60
Schedule C—EZ deductions (line 2)		\$	201

<b>Form 2106—EZ — Employee Business Expense Deduction Computation</b>			
Car expenses for church business: (2,708 miles x 36.5¢)		\$	988
Publications and booklets			219
Unadjusted Form 2106—EZ expenses (line 1 plus line 4)		\$	1,207
Minus:			
Nondeductible part of Form 2106—EZ expenses (23% x 1,207)			-278
Employee business expense deduction — Form 2106—EZ line 6		\$	929
None of the other deductions claimed in the return are allocable to tax-free income.			

Attachment 2. **Attachment to Schedule SE (Form 1040)**

Church wages		\$	31,000
Personage allowance—Mortgage	\$ 9,600		
Utilities	1,200		10,800
Net profit from Schedule C—EZ			3,799
		\$	45,599
Less:			
Schedule C—EZ expenses allocable to tax-free income	\$ 60		
Ministerial employee business expenses (unadjusted Form 2106—EZ expenses (line 1 plus line 4))		1,207	1,267
Net Self-Employment Income Schedule SE, Section A, line 2		\$	44,332



<p><b>A</b></p> <p>Accountable plan . . . . . 7</p> <p>Administrators . . . . . 8</p> <p>American Samoa . . . . . 4</p> <p>Assistance (See Tax help)</p> <hr/> <p><b>C</b></p> <p>Cantors . . . . . 9</p> <p>Christian Science:</p> <p>    Practitioners . . . . . 4, 6</p> <p>    Readers . . . . . 4, 6</p> <p>Comments . . . . . 2</p> <p>Common-law employee . . . . . 3</p> <p>Commonwealth of the Northern Mariana Islands (CNMI) . . . . . 4</p> <p>Comprehensive example . . . . . 12</p> <p>Credit:</p> <p>    Earned income . . . . . 11</p> <p>    Retirement savings contributions . . . . . 11</p> <hr/> <p><b>D</b></p> <p>Deduction for self-employment tax . . . . . 9</p> <hr/> <p><b>E</b></p> <p>Earned income credit:</p> <p>    Earned income . . . . . 11</p> <p>Employment status . . . . . 3</p> <p>Estimated tax . . . . . 10</p> <p>Exclusion, foreign earned income . . . . . 9</p> <p>Exemption:</p> <p>    Effective date . . . . . 5, 6</p> <p>    FICA . . . . . 5</p> <p>    Requesting . . . . . 4, 5</p> <p>    Self-employment tax . . . . . 4, 10</p> <hr/> <p><b>F</b></p> <p>Federal Insurance Contributions Act (See FICA)</p>	<p>FICA:</p> <p>    Are you covered? . . . . . 2</p> <p>    Effective date . . . . . 6</p> <p>    Election to exclude church employees . . . . . 4</p> <p>Filing requirements . . . . . 10</p> <p>Foreign earned income . . . . . 9</p> <p>Form:</p> <p>    1040 . . . . . 9</p> <p>    1040-ES . . . . . 10</p> <p>    1040X . . . . . 5</p> <p>    4029 . . . . . 5</p> <p>    4361 . . . . . 5</p> <p>    941 . . . . . 6</p> <p>    943 . . . . . 6</p> <p>    SS-8 . . . . . 3</p> <p>Free tax services . . . . . 11</p> <hr/> <p><b>G</b></p> <p>Gross income, amounts not included in . . . . . 7</p> <p>Guam . . . . . 4</p> <hr/> <p><b>H</b></p> <p>Health insurance costs . . . . . 9</p> <p>Help (See Tax help)</p> <p>Home ownership . . . . . 8</p> <p>House or parsonage, fair rental value . . . . . 8</p> <hr/> <p><b>I</b></p> <p>Income tax:</p> <p>    Income and expenses . . . . . 8</p> <p>    Withholding . . . . . 10</p> <p>Individual retirement arrangements (IRAs) . . . . . 10</p> <hr/> <p><b>K</b></p> <p>Keogh (H.R.10) plans . . . . . 10</p> <hr/> <p><b>L</b></p> <p>Lay employees . . . . . 3</p> <p>Living abroad . . . . . 7</p>	<p><b>M</b></p> <p>Member of religious order . . . . . 9</p> <p>Ministers . . . . . 3</p> <p>Missionary team, husband and wife . . . . . 7</p> <p>More information (See Tax help)</p> <hr/> <p><b>N</b></p> <p>Nonaccountable plan . . . . . 7</p> <p>Nonfarm optional method . . . . . 8</p> <p>Nonresident aliens . . . . . 4</p> <hr/> <p><b>O</b></p> <p>Offerings and fees . . . . . 8</p> <p>Overseas duty . . . . . 7</p> <hr/> <p><b>P</b></p> <p>Parsonage allowance . . . . . 7, 8</p> <p>Publications (See Tax help)</p> <p>Puerto Rico . . . . . 4</p> <hr/> <p><b>Q</b></p> <p>Qualified services, exemption for:</p> <p>    Members of religious orders . . . . . 6</p> <p>    Ministers . . . . . 6</p> <hr/> <p><b>R</b></p> <p>Refunds, self-employment tax . . . . . 5</p> <p>Reimbursements . . . . . 7</p> <p>Religious orders, members of . . . . . 3</p> <p>Religious workers . . . . . 4</p> <p>Rental allowance . . . . . 8</p> <p>Resident aliens . . . . . 4</p> <p>Retired ministers . . . . . 8</p> <p>Retirement savings . . . . . 10</p> <p>Retirement savings contributions credit . . . . . 11</p> <p>Royalty income . . . . . 6</p>	<p><b>S</b></p> <p>SECA . . . . . 2</p> <p>Sects, members of recognized religious . . . . . 5</p> <p>Self-Employment Contributions Act (See SECA)</p> <p>Self-employment tax:</p> <p>    Application and approval . . . . . 4</p> <p>    Deduction . . . . . 9</p> <p>    Exemption . . . . . 4, 10</p> <p>    Maximum earnings . . . . . 7</p> <p>    Nonfarm optional method . . . . . 8</p> <p>    Regular method . . . . . 7</p> <p>Self-employment, net earnings from . . . . . 6</p> <p>SIMPLE plan . . . . . 10</p> <p>Simplified employee pension (SEP) plan . . . . . 10</p> <p>Social security coverage . . . . . 3</p> <p>Suggestions . . . . . 2</p> <hr/> <p><b>T</b></p> <p>Tax help . . . . . 11</p> <p>Tax-free income, expenses . . . . . 9</p> <p>Tax-sheltered annuity plans . . . . . 11</p> <p>Taxpayer Advocate . . . . . 11</p> <p>Teachers . . . . . 8</p> <p>Theological students . . . . . 9</p> <p>Traveling evangelists . . . . . 9</p> <p>TTY/TDD information . . . . . 11</p> <hr/> <p><b>U</b></p> <p>U.S. citizens . . . . . 4</p> <hr/> <p><b>V</b></p> <p>Virgin Islands . . . . . 4</p> <p>Vow of poverty . . . . . 3</p> <hr/> <p style="text-align: right;">■</p>
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## Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

### General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509 Tax Calendars for 2003
- 553 Highlights of 2002 Tax Changes
- 910 Guide to Free Tax Services

### Specialized Publications

- 3 Armed Forces' Tax Guide
- 54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
- 225 Farmer's Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Tax Benefits for Work-Related Education
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 530 Tax Information for First-Time Homeowners
- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 571 Tax-Sheltered Annuity Plans (403(b) Plans)
- 575 Pension and Annuity Income
- 584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 The IRS Collection Process
- 595 Tax Highlights for Commercial Fishermen
- 596 Earned Income Credit (EIC)
- 721 Tax Guide to U.S. Civil Service Retirement Benefits

- 901 U.S. Tax Treaties
- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 How Do I Adjust My Tax Withholding?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 969 Medical Savings Accounts (MSAs)
- 970 Tax Benefits for Education
- 971 Innocent Spouse Relief
- 972 Child Tax Credit (For Individuals Sent Here From the Form 1040 or 1040A Instructions)
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Taxpayer Advocate Service of the IRS

### Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

## Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A&B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
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