

Taxes and Ministers

2017 edition (rev. 10/17)

TOPICS:

- The IRS's definition of minister
- Employment status: W-2 or 1099
 - Housing/Parsonage allowance
- Reporting income and expenses
- Paying federal and state taxes
 - Social Security taxes
- Tax-favored savings plans



A brochure designed for ordained
Or commissioned Ministers of
The Lutheran Church—Missouri Synod

NOTE: This brochure is for information only. It is not a substitute for obtaining professional tax, legal or financial advice. The services of a professional person are recommended if advice is required with respect to the subjects herein.

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☞Does IRS consider me a "minister"?

As a qualified graduate (whether male or female) of a synodical educational institution, you will likely fill an assignment that has been duly extended by an authorized calling body. A qualified graduate includes a pastor (including ordained specific ministry pastor), teacher, Director of Christian Education, Director of Christian Outreach, Certified Lay Minister, deaconess, parish assistant, Director of Parish Music, and Director of Family Life Ministry who are listed on Synod's roster as a graduate or a worker who has completed an approved colloquy or distance learning program of the Synod. From that point on, your service in the ministry of The Lutheran Church--Missouri Synod (LCMS) as either an "ordained minister" or "commissioned minister" will be subject to special tax rules and entitled to certain privileges afforded IRS-recognized "ministers of the Gospel".

The Tax Importance of your service "in ministry"-

To be entitled to the special tax treatments afforded to a "minister of the Gospel", you must earn your compensation "in the exercise of the ministry". The exercise of the ministry includes pastoring, teaching or holding administrative positions in any one of the synodical churches, parochial schools, colleges, or universities, and other religious organizations under the authority of a church. Then (under certain circumstances) ministers are permitted to exclude from taxable income the value of a parsonage or a housing allowance. To qualify for the exclusion, the parsonage or housing allowance must be *pre*-approved by your congregation's appropriate governing body and provided as part of your compensation for services as a minister of the Gospel.

Simply being ordained or commissioned and being on Synod's roster is not enough. If you are not conducting activities "in the exercise of the ministry", then you cannot take advantage of the parsonage or housing allowance exclusion. Both you and your authorized calling body may be penalized if this requirement is ignored. The only exception to this rule applies to retirees. Upon retirement, you may exclude 100% of your pension payments that represent compensation for past services performed as a minister (providing the amounts have been officially pre-designated as housing allowance and to the extent such payments are used to provide a home).

☞Employment Status

The IRS bases the determination of whether an individual is an employee or self-employed on common-law rules. The general common-law rule defining a person's employment status can be stated as follows:

The relationship of an employer and employee exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished.

That is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed, it is sufficient that he/she has the right to do so.

As a minister of the Lutheran Church--Missouri Synod, you are regarded as an employee for income tax purposes and will be given a Form W-2 based on your working relationship with your employer. However, IRS specifically excludes ministers from the usual withholding or social security tax rules applicable to employees (a more detailed explanation of this special treatment follows under *Social Security*)

Based on IRS-issued guidelines, synodical parish pastors and all administrative and teaching personnel within the Synod and its colleges, seminaries, congregations, and schools are regarded as common-law employees.

☞Parsonage and Housing Allowance

In General

The parsonage or housing allowance is a favorable tax consideration granted to ministers. It is excluded from your taxable income to the extent that you use it for qualified housing related expenses. Special tax treatments depend on whether you live in a parsonage, rent a home, mortgaged a house, own your house debt-free, or have a home equity loan.

According to the IRS, a minister of the Gospel's gross income (subject to income tax) *does not* include:

1. The rental *value* of a home furnished to you (i.e., a parsonage or teacherage) as a part of your compensation (Parsonage allowance); or
2. The rental *allowance paid* to you to rent or provide a home (Housing allowance).

Parsonage allowance

If your employer furnishes you with a dwelling, its fair rental value is not a part of your taxable compensation for income tax purposes. The same applies to furniture, garage, repairs and utilities, if provided by your employer. However, the fair rental value and the other housing related benefits paid by your employer are included in income for self-employment tax computation.

If your dwelling is provided by your employer and you pay the cost of the utilities or other expenses connected with the home, your employer may designate a part of your compensation as "a housing allowance" to cover your costs. This designated amount is excluded from your taxable income to the extent used for qualified expenses. However, it is included in the self-employment tax computation.

Housing allowance

Your employer may pay you an allowance whether you live in a parsonage, a rental dwelling, or your own home. The amount of allowance may vary with these circumstances. Your housing allowance neither increases nor decreases your cost to the congregation. Rather, it is a part of your compensation that has been designated as a housing allowance.

However, suppose at the end of the year you determined, of your designated housing allowance (all of which had been excluded from your taxable income), a portion exceeded its lawful limitation (refer to "Housing Allowance Limitations" discussed later.) In that case, you must report the excess as taxable income. Generally, this is done by disclosing the excess amount on your individual tax return (Form 1040) where "Wages, salaries, tips, etc." must be reported; labeling it as "unused housing allowance."

For this publication references to "housing allowance" will include all allowances paid to a worker for providing a home. This also includes utilities allowance and furnishings allowance.

The importance of "pre-designating" the housing allowance

It is extremely important that your employer makes (by official resolution) the housing allowance designation sometime *before* you are paid your compensation. The designation may take the form of a specific dollar amount or a per cent of total compensation. The designation can *never* be made retroactively. It may be amended from time to time as necessary, but each amendment must be formally adopted by your employer and can only affect income paid afterwards.

Most employers' year-end checklists include making amendments to pre-designated housing allowances. They plan for such designations to go into effect on the first day of the following year. However, changes do not have to begin with the new year. For example, assume that on February 27 you decide to move into another home on June 1. If you expect that the expenses of your new home will exceed the amount of your existing pre-designated housing allowance, you should ask your employer to amend it. The amendment only applies to subsequent paychecks; therefore the new resolution should be adopted as soon as possible to help you maximize the year's allowable exclusion of income.

Renting or owning your own home

If your employer does not provide you a parsonage or teacherage and you either rent or own your home, your employer may designate part of your compensation as "housing allowance". To the extent that you "use" this housing allowance to rent or provide a home and your total expenses do not exceed the fair rental value of your home, furnished including utilities, it may be excluded from your taxable compensation. Use is determined by the amounts spent for rents, home repairs, real estate taxes, mortgage payments, a down payment to purchase your home, insurance, lawn care, utilities, furniture, remodeling and other home improvements (almost any expenditure to provide a home except food and maid service).

IRS has imposed another long-standing restriction to the amount you may actually exclude from taxable income, limiting your housing-related expenses to only one home, normally your primary residence. This restriction was re-affirmed recently by the court in the Driscoll case. As a matter of caution, consult with your tax advisor before adopting any contrary position in this regard.

In order to exclude any amount of the housing allowance, proof of your expenses in the form of receipts or canceled checks should be retained.

The housing allowance is excluded for income tax, but *is not* excluded from self-employment tax and must be included in the self-employment computation.

Housing allowance limitations

The housing allowance exclusion is limited to the smallest of the following amounts:

1. Amount of compensation pre-designated as housing allowance by your employer.
2. Fair rental value of your home, furnished, including utilities.
3. Amount actually spent during the year for housing and properly substantiated (save receipts)

An additional requirement is that the housing allowance must be "reasonable" in amount. In other words, the amount cannot be more than reasonable pay for a minister's services.

"Debt-Free" Home

Usually if you own your home debt-free you will not be able to exclude as much housing allowance as others whose homes are mortgaged. The reason, of course, is that you are not making principal and interest mortgage payments. Thus, while the fair rental value of a home usually is high enough to cover such payments, the allowable housing allowance that can be taken on a debt-free home will generally be lower, since it is limited to the amount you actually spent to provide a home.

Down payments and home improvements

Planning to purchase a home or make a major costly improvement to your home? Whether these extraordinary expenses qualify as those used to provide a home depends on the financial arrangements and your annual housing allowance limitation.

If you anticipate spending additional cash to either buy a home or improve one, you might request your employer to pre-designate a sufficient portion of your income as housing allowance to *meet* your projected need (refer back to *The importance of "pre-designating" the housing allowance*). However, you may still be unable to exclude from income all of your actual expenses because these (added to your other usual expenses) will generally exceed the fair rental value of your home, furnished, including utilities. A little financial planning (i.e., paying less down in purchasing your home or financing your home improvements) can sometimes improve your ability to exclude these costs. Usually, a stream of payments spreading expenses over several years rather than a large single payment saves some loss of the exclusion to the extent your total actual expenses remain under the annual fair rental value limitation. In addition to saving tax, consider the cost of financing before deciding how you want to fund your project.

You should save receipts and other records for all of your home improvements and additions. These expenses affect the basis of your home which is a factor when calculating your gain on the sale of your home (refer to "*Selling your home*" discussed later). Some recognized experts in the field of church and clergy taxes agree that improvements, whether or not excludable under IRS Code §107 (relating to housing allowance), can be used to adjust the basis of your home.

Home equity or personal loan payments

Generally, your home equity or personal loan payments secured by a mortgage on a home that is otherwise debt-free cannot be considered as housing related expenses. However, you may consider these payments as housing-related if the loan proceeds were used to pay for home repairs, maintenance or furnishings.

☞Reporting Income and Related Expenses

Income

In General

Your "income" includes much more than your salary. In the preceding paragraphs for example, you learned that the annual fair rental value of a parsonage provided to ministers (though not subject to income tax) is considered income with respect to self-employment tax. The fair rental value of the parsonage may also be an income factor used when determining qualification for earned income credits (discussed later). The following items describe other types of gross income relevant to most ministers. Some of these items are taxable, some are not.

Group-term life insurance coverage

If your group-term life insurance coverage exceeds \$50,000, IRS requires your employer to report a portion of the premium payment as taxable income. You will find the additional income added within "wages" on your W-2.

An employer-provided home loan

Your employer may assist you with the purchase of your home by means of a Church Extension Fund loan or sale of a parsonage. If so, your employer will report your interest payments on IRS Form 1098. You and IRS receive a copy of this form.

If your employer directly loans you a down payment of more than \$10,000 to purchase a home, no taxable compensation is reported unless the money is loaned at a rate below market. The tax treatment for compensation-related below-market loans depends on whether a demand or term loan is involved.

For demand loans, each year for as long as the loan remains outstanding additional wages will be added to your gross income equal to your employer's foregone interest amount (called, imputed interest).

Term loans, however, are treated differently. Your compensation is the excess of the amount loaned over the present value of the principal due under the loan. Instead of annual additions to income, the entire amount is considered to have been received on the date the loan is made. However, the compensation-related term loan can be treated like a demand loan (i.e., wages can be spread over the term of the loan) if: 1) the loan is non-transferable; and 2) conditional on your future performance of substantial services.

Additional compensation from compensation-related below-market loans is not subject to income tax or self-employment tax withholding. Therefore, you must consider your added tax liability when calculating your quarterly estimated tax payments. Another consideration should be made for the deductibility of mortgage interest (equal to the imputed amount) on Form 1040, Schedule A.

Below-market rules do not apply to any day on which the outstanding debt between you and your employer falls to \$10,000 or below. Also, employee-relocation loans are exempt from the rules if the loan is: 1) secured by a mortgage on the new principal residence; 2) acquired as a result of the relocation; 3) the term or demand note is not transferable; and 4) the loan is conditional to your future performance of substantial service.

An employer-provided cell phone

If your employer gives you a cell phone to make your business calls, its expense may be excluded from your gross income as a tax-free fringe benefit.

Purchasing a parsonage for less than fair market value

If your employer offers to sell you the parsonage at a price set at less than fair market value, the excess over the bargain sale price will be included in your compensation. You and your congregation must also consider whether or not the resulting compensation escalates your compensation to an unreasonable level. If it does, the church's tax-exempt status is jeopardized and IRS can impose steep penalties against the church officers and you unless the transaction is corrected within a certain time prescribed by IRS.

Your additional compensation is subject to income and self-employment tax. As this income provides you a "down payment", you may include it as expenses to provide a home when determining how much of your housing allowance was used.

Educational assistance

If your congregation has an educational assistance program, you may receive annual reimbursements of qualified educational expenses up to \$5,250 tax-free (benefits in excess of this limit are taxable).

Qualified educational expenses under an educational assistance program include cost of books, equipment, fees, supplies, and post-secondary tuition, including graduate-level courses. Educational reimbursements that do not qualify for income exclusion must be added to your wages and are subject to income and self-employment taxes you pay by means of voluntary withholding or estimated payments.

If your reimbursed educational expenses are not eligible for income exclusion, they may qualify for a higher education deduction or credit.

Forgiveness of debt

If your congregation, as part of your compensation package, provides you a loan (typically for a down payment on a home) and forgives a portion of the loan annually, the forgiven portion will be treated as compensation and reported annually on your Form W-2. As this "income" provided housing debt retirement, you may include it as expenses to provide a home when determining how much of your housing allowance was used.

Loans made to you for purposes other than buying a home (i.e., paying-off student loans) may be canceled using this same method. The tax consequences are similar (compensation-related), however, retiring a student loan is not relevant to housing allowance.

If arrangements to evidence and secure repayment of such loans are not made with meticulous care, the IRS could claim they are not loans at all and tax the entire amount in the year "loaned".

Honorariums and other earned income

How you report income on your tax return depends on the nature of the income. Salary received in service as a minister and reported to you on Form W-2 should be reported on Form 1040 as "Wages, Salaries, Tips, Etc." If your church-designated housing allowance exceeds the IRS-allowable housing allowance exclusion (refer back to *Housing allowance limitations*), the excess amount should be reported on Form 1040 as wages on line 7, labeling it "unused housing allowance". Honoraria

received as income for officiating at services, and fees for weddings, providing music, writing articles, giving lectures/speeches, or for radio or television appearances are taxable income and should be reported on Schedule C, "Profit or Loss from Business". Likewise, any expenses (e.g., mileage, etc.) directly associated with honoraria or other incidental income should be reported on Schedule C.

Gifts

Whether a gift is taxable or not depends on who is giving it to you and their reason or intent for giving it. For example, your congregation may give you a gift for some special occasion. All cash "gifts" given to you directly by your employer or solicited from individual members in an organized manner (e.g., door collection) is taxable compensation. Your employer will report it on your W-2.

You can receive gifts directly from individual congregation members for reasons other than compensating you for your services. Such gifts, sometimes called "love" gifts, are not considered as taxable income.

However, if a church member gives you a "gift" out of appreciation for your pastoral duties (a "bonus" so to speak), the fair market value of such a gift is treated like an honorarium. You should report it as income on Schedule C. This form of compensation is subject to income and self-employment tax.

Service Awards

Current law and IRS regulations do prescribe a method by which your congregation can recognize your service anniversaries with tangible gifts on a non-taxable basis. Awards of cash or gift certificates, however, do not qualify for this exclusion. Other certain limits apply with respect to the monetary value and frequency of such awards. If your employer determines that the award does not qualify for income exclusion, its value will be included in "wages" on your Form W-2.

Selling your home

You may be able to exclude (from gross income) the gain realized on the sale of your principal residence. In general, the exclusion cannot exceed \$250,000 (\$500,000 if married filing a joint return) AND applies only if you owned the home and used it as your principal residence for at least two of the five years prior to its sale or exchange. If you cannot meet these eligibility requirements because you changed your place of employment, you may still be able to exclude (from gross income) a fraction of the gain realized from the sale.

If you rent your home to someone else (or claim a tax deduction for office use of your home), then a certain amount of capital gains income must be recognized when you sell it. However, capital gains income is taxed at a lower rate than ordinary income and is not subject to self-employment tax.

If you own your home, we recommend seeking professional advice concerning the tax consequences of selling it.

Foregoing full salary offered (refusal to accept)

For whatever reason, you may decide to not accept your entire salary offered to you by your

congregation. But did you know that you could be required by IRS to include in taxable income any portion of your salary that you refuse to accept? Tax courts have not been in agreement on this issue. However, the "constructive receipt doctrine" set forth in IRS regulations specifies that you do not have to have possession of income for it to be considered constructively received. Chances improve that IRS will apply this doctrine to you if it discovers that you are clearly receiving something, either cash or non-cash, in consideration for your services. In a church environment, salary reductions to either make your church contribution or to receive reduced tuition are two common examples of taxable non-cash consideration.

Generally, wages are taxable in the year paid to you (or payable had you not negotiated other like-payment arrangements). Under less common circumstances, they are taxable in the year your employer credits them to an account for your use (e.g., nonqualified expense account), otherwise sets them aside for you, or makes them available to you at any time upon your request.

Qualified tuition reductions

If your congregation operates a school and has a qualified tuition reduction plan, you may be offered "free or reduced tuition" for your children's education. Although this benefit is available tax-free for any school employee (including commissioned teachers and Directors of Christian Education) regardless of position, some recognized experts in the field of church and clergy tax law agree that this is not tax-free for employees of a church (e.g., the pastor) that operates a private school. That being the case, pastors must treat the reduced tuition amount as income subject to income tax and self-employment tax. While there is some argument that the pastor's magnitude of involvement in the school might make him eligible for the tax-free savings, there is no guarantee that IRS would share that idea and refrain from considering his duties to be *more* religious than educational. A call document that lists sufficient responsibilities for the school would strengthen your eligibility for this tax-free benefit.

Expenses and Other Deductions

Mortgage interest and real estate taxes ("Double deduction")

Although mortgage interest and real estate taxes are taken into account when you determine the amount used to provide a home (i.e., the nontaxable portion of your salary), you may *also* claim deductions for mortgage interest and real estate taxes if you itemize deductions on your federal income tax return. This provision is a matter of law and a special benefit to ministers. Your employer may not diminish it.

Charitable contributions

The only way that you may claim a deduction for the gifts and contributions you give to your church is if you itemize your deductions on Schedule A.

Most ministers support their church with regular contributions. If you ask your employer to deduct from your paycheck a specified amount or percentage (tithe) as a donation to the church, your taxable wages must not be reduced by the amount of your contribution.

Business expenses

The manner in which "business" expenses are reported on your federal income tax return depends on how you earned the income associated with them. For example, business expenses relating to your employment are reported differently than business expenses relating to the income you received from a parish couple for officiating at their wedding or royalties received for a book you published. Each reporting method renders a different tax result and requires separate IRS forms.

Reporting business expenses relating to your employment is further dependent on whether the expenses are reimbursed by your employer and whether the reimbursement is a fixed cash allowance ("allowance") or a dollar-for-dollar reimbursement ("direct reimbursement") under which the minister accounts adequately to the employer for the expenditures.

If you receive an "allowance" without being required by your employer to either account for each business expenditure within 60 days or pay back the portion which is unaccounted, this allowance is includable as income on your Form W-2. You lose the deductibility of these expenses if you are a non-itemizer (i.e., a taxpayer taking the "standard deduction" because it beats itemizing actual deductible expenses). And, you will never receive a full deduction for these expenses even if you do itemize using Schedule A of Form 1040. Your deduction will likely be limited as described in the next section. Then, your limited deduction is reduced again. It must be added to your other miscellaneous itemized deductions, if any. Of this total, the resulting deduction is the amount that remains after subtracting 2 percent of your adjusted gross income.

Business expenses for which you receive a direct reimbursement *following* an adequate accounting of these to your employer are not includable as income; neither are you required to report them on your individual income tax return. In contrast to the allowance method, the direct reimbursement method is usually the better and least expensive.

The business expenses relating to income you earn from sources other than your employer is reported on Schedule C.

Whether the direct reimbursement method or the cash allowance method is adopted by your employer to reimburse you for employee business expenses, it is important to maintain adequate records in order to support either the exclusion of the reimbursement from income or the deductibility of such amounts from expense allowances included on your Form W-2.

Business deduction limitations

The IRS has taken the position that the pro rata portion of your unreimbursed business expenses attributable to your earned income which is excluded from tax as a housing allowance is not deductible. Accordingly, you must report only the adjusted amounts on your IRS Form 2106 (with an attached explanation showing your calculations). For your reference, IRS Publication 517 illustrates how to both calculate and report the allocation. However, this rule does not apply when computing your self-employment taxes (Schedule SE). For that calculation, 100% of your unreimbursed business expenses is deductible since the housing allowance is fully taxable.

For example: Mr. T. Chumwell, a commissioned minister, receives compensation of \$28,200 for teaching at Hope Lutheran School--of which \$9,600 (34 percent of \$28,200) is tax-exempt housing allowance--and incurs unreimbursed business expenses of \$1,000. He is limited to a miscellaneous deduction of \$660 (66 percent of \$1,000). The \$340 (34 percent of \$1,000) is prohibited because it was directly attributable to tax-exempt income, and its deduction would otherwise amount to a

"double deduction". Mr. Chumwell itemizes his deductions on IRS Schedule A. The \$660 miscellaneous deduction is deductible only to the extent that it exceeds 2 percent of his adjusted gross income. The partial disallowance of his business deduction affects only his calculation of taxable federal income. For purposes of figuring his self-employment tax, he can use the entire amount of unreimbursed business expenses to calculate his net income.

Auto expenses

If you use your own automobile for business use, your expenses may be calculated based on the actual expenses incurred (e.g., gas, oil, repairs, licensing, depreciation, insurance, etc.) or on an amount per mile driven (called, "standard business mileage rate"). IRS prescribes the standard mileage rate; it is 53.5¢/mile. The rate may change for 2018. (If the actual expense method is used, your total expenses must be prorated between business and personal use. Commuting (i.e., to and from your home and place of employment) is a personal use, therefore not deductible for tax purposes. Unreimbursed business expenses attributed to automobile use are allowed as itemized deductions to the extent they exceed 2 percent of adjusted gross income (after added to other miscellaneous deductions). You will use IRS Form 2106 to report the business use of your automobile.

An adequate record of your business use must be made in order to either exclude reimbursed business mileage from income or deduct unreimbursed expenses. Your records must indicate the mileage, date, destination, and business purpose for each trip made. You must provide your employer with the record of your business mileage if receiving direct reimbursement. Otherwise, keep the record yourself as evidence in the event IRS ever examines your tax return.

Car allowance

An auto allowance is a cash payment given to you by your employer for the purpose of covering your automobile business expenses. It's different from excludable auto reimbursements because your employer neither requires you to substantiate its entire usage for business or return the unused portion.

If your employer provides you with an auto allowance, it is considered taxable "compensation" and included with your wages reported in Box 1 on Form W-2. Therefore you must complete an IRS Form 2106, "Unreimbursed Employee Business Expenses", in order to claim a federal income tax deduction for the auto expenses used. However, the amount you report as vehicle expenses on this form must be proportionately reduced if you've excluded a housing allowance or parsonage value from your income (refer back to *Business Deduction Limitations*). Total expenses on Form 2106 are itemized on your Form 1040, Schedule A under miscellaneous deductions; deductible only to the extent they exceed 2 percent of adjusted gross income (after being added to your other miscellaneous expenses).

To circumvent the taxation of any portion of your business auto expenses, discuss with your employer the possibility of implementing a plan to reimburse you directly upon presenting a record of your mileage or actual expenses. This method of reimbursement is also the most favorable to your employer because the reimbursed amounts do not have to be tracked and reported on your Form W-2.

Employer-provided automobile

Bona fide employment-connected business use of an employer-owned auto may be treated as a nontaxable fringe benefit, and only personal use is taxable to the employee.

Thus, your personal usage of an employer-provided auto (e.g., commuting) must be treated as compensation income. Your employer has a choice between certain IRS prescribed methods of evaluating your personal usage. The amount is treated as if paid to you no less frequently than annually. You will find it reported in "wages" on your Form W-2.

Your employer may choose treating the church-owned car as having been used entirely for personal use in order to simplify the burden of recordkeeping. In this situation, you will have to claim deductions for business use of the auto as a miscellaneous itemized deduction reduced by 2 percent of your adjusted gross income and further reduced if you're provided with a housing allowance (refer back to *Business Deduction Limitations*).

Be sure to consider the taxable portion of this benefit when estimating your income and self-employment tax.

Travel expenses

In general, travel expenses are your normal yet necessary expenses while you're on a business mission away from home. A business trip that lasts substantially longer than an ordinary day's work and is far enough to require either rest or sleep before returning home is considered "away from home". Examples of these expenses which are tax deductible (unless 100% reimbursed by your employer) include: transportation (airfare, rail, bus), costs to operate your own car, taxi fares, gratuities, meals (not entertainment) and lodging, cleaning and laundry, telephone, etc.

You will need to provide receipts to your employer if being directly reimbursed for these expenses. Otherwise, retain proof of your expenditures and record the business purpose for your travel if you are claiming an itemized deduction for them (refer back to *Business Expenses*).

Transportation expenses

Transportation expenses are typical business expenses for most ministers. For tax purposes, these expenses are distinct from travel expenses. In general, transportation expenses include the local traveling you do from one place of work to another. If you are on a business trip away from home, your "transportation expenses" can be treated as travel expenses (refer to preceding paragraph for details about travel expenses). Commuting, the travel between your home and your principal place of work, is never considered a transportation expense regardless of the number of round trips in any given day.

These expenses are deductible using one of two methods: standard mileage rate or the actual cost of operating your car for business travel. Refer back to *Auto expenses* for more detailed information about these methods.

Library and books

If your duties require you to purchase a library of books, these can be deductible business expenses if you acquire them in the course of your ministry. Generally, these are depreciable properties, deductible according to methods prescribed by IRS (IRS Publication No. 946, *How to Depreciate Property*).

Computers

IRS requires you to meet two difficult tests in order to claim a deduction for your home computer (or laptop) used for business. Your use of it must be for your employer's convenience (not yours) AND your employer must have required you to purchase it as a condition of your employment. Merely using it for a business purpose does not qualify it as deductible. If you meet both conditions, the cost of your computer (including its peripheral equipment) may be deducted as an unreimbursed employee business expense according to methods prescribed by IRS (IRS Publication No. 946, *How to Depreciate Property*).

Cellular Telephone (owned by employee)

If your employer requires you to maintain and use your personal cell phone for business, you may be reimbursed for it under an Accountable Reimbursement Plan tax-free. You may only realize this tax benefit if the type of cell phone coverage is reasonable, related to the needs of your employer's business, the reimbursement is reasonably calculated so as not to exceed expenses you actually incurred in maintaining the cell phone, and the phone must not be provided to substitute any portion of your wages.

Vestments, professional dues, subscriptions

Expenses for vestments, professional dues, and subscriptions to professional journals are typical miscellaneous business expenses for teachers or pastors (refer back to *Business Expenses* for more information).

Meals and entertainment

Proven (by a paid-receipt, canceled check or consumer statement) entertainment expenses that are either directly related or associated with your ministry may be deductible. Likewise, business-related meal expenses may be deductible. For each occasion, you should maintain a record of the amount, time, place, business purpose, and business relationship between you and those with whom you dined or entertained.

Your employer can fully reimburse you for these expenses under an accountable plan (without including it in your income). You have no responsibility to report the reimbursement or expense to IRS in that case. Otherwise, the unreimbursed portion is subject to a 50% limitation and only deductible as a miscellaneous business expense (refer to *Business Expenses* for more information).

Home office expenses

You may set-up an office in your home. However, chances are that none of the expenses to do this are deductible. Even if they do qualify for a deduction, living in a parsonage or receiving a housing allowance will reduce the deductible amount (see *Business deduction limitations*). The loss is due to your already having the tax-free use of your home.

Also, claiming a deduction for home office expenses requires you to include (in gross income) some capital gain when selling your home. The recognized gain (limited to the extent of "allowable" depreciation) applies whether or not depreciation expenses were actually used to reduce income.

All of several conditions must be met for home office costs to be deductible. For example, it must be: an area regularly and exclusively used for business activity; AND it must be considered your principal place of business. The most difficult condition to satisfy is whether your home office is considered your "principal" place of business. In most cases, your church or school wins out based on it being the place where you conduct a substantial portion of your administrative or management activities related to your ministry. As a further restriction for employees, the home office must do more than be convenient for them--it must be essential to performing their duties. If your employer makes suitable space available for you to perform your administrative activities, your choice to perform such duties at home is not considered essential by IRS.

Moving expenses

According to IRS, qualifying moving costs can only be excluded from taxable income when the employee's new main job location is at least 50 miles farther from home than the old job location. When no previous job exists to measure from (e.g., full-time students), the 50-mile distance is merely that from home.

Qualified moving expenses paid by your employer either directly to a third party for your benefit or to you under a qualified reimbursement plan are not taxable. Such reimbursements paid to you will appear on your Form W-2, but not as taxable income. To be qualified, expenses must be reasonable costs to move you, your family, and your household goods. Other qualifying expenses include storage for 30 days after the move, costs to disconnect and reconnect utilities, and related transportation and lodging costs (not meals) while traveling to your new home. The standard mileage rate for qualified moving expenses is limited to 17¢/mile. This rate may change for 2018. Amounts reimbursed in excess of the standard are considered unqualified.

If your employer reimburses you for qualified moving expenses under a nonaccountable plan, the amount reimbursed will be reported as taxable income on your Form W-2. A nonaccountable plan includes a moving allowance that your employer pays without requiring you to adequately account for all your expenses incurred and return the unspent portion within a reasonable period of time. In either that event or when you pay for these costs without being reimbursed, you can reduce your taxable income on Form 1040 (with an attached IRS Form 3903) without having to itemize on Schedule A. For this purpose, you should retain receipts to back up your claim for reduction.

If your employer reimburses you for any unqualified moving expenses, these costs will be added to your wages and are subject to income and self-employment taxes paid by means of voluntary withholding or estimated payments.

Student loan interest

If you pay interest on a qualified student loan (for yourself, spouse, or dependent), you may reduce your gross income up to \$2,500 (in 2017) for these interest expenses. The deduction phases out ratably for single taxpayers with modified adjusted gross incomes between \$65,000 and \$80,000 (\$135,000 and \$165,000 for joint returns). You and IRS will receive an information return from those whom you pay \$600 or more of deductible student loan interest.

☞Credits

Earned income credit

When you file your Form 1040, you may claim the earned income credit (EIC) if you have met specific criteria prescribed by IRS. It is a special credit for qualifying individuals who work part-time, occasional, or full-time. The credit may either reduce the tax you owe or it could generate a refund if no tax is owed. Some persons raising children as well as those without may be entitled to the credit.

Depending on how much adjusted gross income (AGI) is shown on your tax return, you may be eligible for all or at least some portion of the earned income credit. The amount of AGI at or above which none is allowed (referred to as the “completed phase-out amount”) varies according to your filing status and the number of children you are raising. For example in 2017, the credit completely phases out if you have only one child and your AGI reaches \$39,617 (\$45,207 for joint returns); if you have 2 children and AGI reaches \$45,007 (\$50,597 for joint returns); if you have 3 or more children and AGI reaches \$48,340 (\$53,930 for joint returns); or you are between ages 25 and 65, without children, and your AGI reaches \$15,010 (\$20,600 for joint returns). The IRS, in its instructions for the Form 1040 series, provides tables showing the amount of earned income tax credit for each type of taxpayer.

Congress expressly excluded a minister’s housing allowance, TSA contributions or any other types of nontaxable earnings from the EIC definition of “earned income”. However, it also stated that “earned income” includes net earnings from self-employment. That being the case, ministers participating in Social Security will count housing allowance in determining their “earned income”. This illogical result, intentionally done or not, remains in effect until such time as Congress deems it appropriate to amend the law. If you think you qualify for the credit, refer to IRS Publication 596, *Earned Income Credit*, for more information.

Child Tax Credit

For parents with children, there is a tax credit provision of \$1,000 for each qualifying child under the age of 17 through 2017. The credit begins to phase out at a rate of \$50 for each \$1,000 of modified adjusted gross income over certain thresholds. The thresholds are: \$110,000 for married taxpayers filing joint returns; \$75,000 for single or head of household taxpayers; and \$55,000 for married taxpayers filing separately. If your taxable income causes you to receive less than the full credit, you may receive an additional credit. The additional credit (claimed by filing IRS Form 8812) may give you a refund even if you do not owe a tax. For more information, refer to IRS Publication 972, *Child Tax Credit*.

Lifetime Learning Credit

The Lifetime Learning Credit is a tax-favored provision that allows you to claim in 2017 a nonrefundable credit against federal income taxes equal to 20 percent of qualified tuition and educational fees (not books) that you paid for yourself, your spouse or dependents. Eligible courses include *any* course of instruction at an eligible educational institution (including undergraduate and *graduate-level* courses) to *acquire* OR *improve* job skills of the student. For expenses you paid in 2017 (up to \$10,000), your maximum credit is \$2,000. Qualified expenses paid with the proceeds of a loan are eligible for the credit rather than the loan's repayments. There is no limit to the number of years that you may claim the credit.

Income phase out ranges for the Lifetime Learning Credits are: singles, \$56,000-\$66,000; married filing a joint return, \$112,000-\$132,000. In subsequent years, the ranges will be indexed for inflation.

The Lifetime Learning Credit applies on a tax-return basis and covers a broader time frame and range of educational courses than the American Opportunity Tax described later. However you should consider the tax benefits of both provisions choosing that which your family qualifies and benefits from the most.

American Opportunity Tax Credit (formerly “Hope Scholarship Credit”)

The American Opportunity Tax Credit is another tax-favored educational incentive devised by Congress whereby you may claim a credit up to a maximum of \$2,500 (credit equals 100% of the first \$2,000 of tuition and qualifying expenses plus 25% of the next \$2,000) per eligible student per year. Text books and course materials are included as qualifying expenses. Students in their first four years of postsecondary education are eligible for the credit. The income phase out range is to \$80,000 - \$90,000 for single taxpayers and \$160,000 - \$180,000 for joint filers. Forty percent of the credit is refundable. Students must be enrolled at least half-time to be eligible for the credit. Although your educational rank makes you ineligible for this tax benefit, perhaps your spouse or dependent children qualify.

The American Opportunity Tax Credit has a narrower time frame and range of educational courses than the Lifetime Learning Credit described earlier. However you should consider the tax benefits of both provisions choosing that which your family qualifies and benefits from the most.

TSA Tax Credit (called “Saver’s Credit”)

A Tax-Sheltered Annuity (TSA) credit provides an incentive for lower income taxpayers to start a TSA or contribute to an already-existing one. In 2017, if you are a joint filer with an adjusted gross income (AGI) of \$62,000 or less; head of the household filer with an AGI of \$46,500 or less; or single filer with an AGI of \$31,000 or less, you are eligible to receive a nonrefundable credit for your TSA contribution in addition to the exclusion that already applies. The maximum annual contribution eligible for credit is \$4,000 if you are a joint filer, \$2,000 for all other filers; the credit rates (50%, 20%, or 10%) based on your AGI.

☞ *Social Security*

Self-employment tax

According to IRS:

"With respect to Social Security, ministers of the Gospel are self-employed"

Although ministers of The Lutheran Church--Missouri Synod should be regarded as employees for federal income tax reporting purposes, they are regarded as self-employed for social security purposes. Accordingly, you will pay the "self employment tax" rather than FICA taxes. This is usually computed by multiplying net self-employment earnings times .9235 and that result multiplied by the self-employment tax rate, currently 13.3% (rate to return to 15.3% after 2012). Net self-employment earnings are computed as follows:

- (+) **W-2 wages**--includes items of church income, i.e., taxable salary (does not include housing allowance), taxable fringe benefits, auto allowance, offset payment, social security allowance, group term life insurance premium for coverage in excess of \$50,000, non-qualified moving expense payments
- (+) **Self-employment earnings** from other sources, i.e., honoraria, wedding fees, giving lectures, writing articles, etc. (as reported on Schedule C)
- (+) **Parsonage/Housing allowance**--fair rental value of the parsonage and cost of any utilities paid for you by your employer or the portion of your salary excluded from taxable wages as housing allowance
- (-) **Unreimbursed employee business expenses** (as reported on Form 2106, but disregarding *Deason* reduction rule)
- (-) **Business expenses** (as reported on Schedule C, but disregarding *Deason* reduction rule)

☞ Note: a portion, approximately one-half, of your self-employment tax is deductible as an adjustment in computing income taxes (Form 1040, page 1, "Adjustments to Income") whether or not you can itemize deductions on Schedule A.

Self-employment tax paid by your employer

Because ministers pay a much higher percentage of social security tax than employees, some employers may offer to pay a portion of it for you. However, this form of relief is considered additional compensation for income tax and self-employment tax purposes.

Exemption from self-employment tax

The Lutheran Church-Missouri Synod does not oppose participation by its ministers in Social Security on the basis of religious principles. Conventions of the Synod have enacted resolutions encouraging participation in Social Security, implying that, as a church body that ordains ministers, it does not recognize a theological basis of opposing participation in Social Security.

You may not file for an exemption from the Social Security tax unless you meet several IRS requirements. The exemption must be filed within a limited time period, and it is available only to clergy who are *opposed on the basis of religious considerations to the acceptance of social security*

benefits based on their ministerial services. Since Synod does not oppose participation by its ministers in Social Security on the basis of religious principles, that leaves you alone having to prove your individual objection. The exemption is effective upon approval of IRS.

Opting-out of Social Security cuts short your retirement benefits as well as medical coverage for you and your family. Medicare is tied-in with Social Security, so church workers would forego both forms of insurance. Also, you may be disappointed with your retirement benefits from Concordia Plan Services since these are computed with the expectation that Social Security and Medicare will be included. The Concordia Plan Services estimates that less than five percent of rostered church workers have opted-out of Social Security.

☞Tax Payment Methods: Federal, State, and Social Security

In General

The compensation of a minister earned in the exercise of the ministry is specifically excluded by the Internal Revenue Code from mandatory federal income tax withholding. In addition, minister's compensation is subject to self-employment tax which is also excluded from mandatory withholding. Therefore, you should either pay quarterly installments of estimated tax or mutually agree on voluntary withholding with your employer.

Quarterly estimated payments

Your quarterly tax payments (federal and self-employment) are due as shown below:

<u>For the period</u>	<u>Due date*</u>
Jan 1 - Mar 31	Apr 15
Apr 1 - Jun 30	Jun 15
Jul 1 - Sep 30	Sep 15
Oct 1 - Dec 31	Jan 15

*due dates falling on a Saturday, Sunday, or legal holiday may be extended to the next business day

An **Estimated Taxes Worksheet** is provided near the end of this brochure to help you estimate these payments. You should remit your payments on current Forms 1040-ES payment vouchers obtained directly from the IRS. Alternatively, you can pay your tax online at www.eftps.gov. The IRS does not send out notices of taxes due. If changes in income or deductions revise your original estimate, that estimate may be adjusted on your next installment of estimated tax.

You will eventually report your self-employment tax liability based on your actual earnings and applicable deductions to IRS. This is done on Schedule SE, "Self-Employment Tax", and filed with your individual income tax return (IRS Form 1040).

IRS will apply all of your estimated tax payments (including any tax withheld by your employer, if applicable) towards your total tax liability (federal and self-employment). If your Form 1040 reports a "substantial" understatement of taxes paid, the Service will penalize you. However this penalty is not imposed if your total tax liability, reduced by your estimated payments and any income tax withheld, is less than \$1,000. For more information, see IRS Publication 505, *Tax Withholding and Estimated Tax*.

Voluntary withholding

If both you and your employer agree, your employer may withhold and remit your income and self-employment tax liability to IRS on your behalf. The entire amount remitted is treated as "federal tax withheld" and not to be confused with FICA or Medicare withholding. If you have a sufficient amount withheld and remitted this way, you save yourself the trouble of sending in estimated quarterly tax payments.

Your employer may request you to complete a Form W-4 so that there is a record of your intent to have tax withheld. First, however, you must estimate your annual liabilities for federal income tax AND self-employment tax (see the **Estimated Taxes Worksheet**). These annual amounts must be combined and pro-rated according to the number of pay periods remaining for the current tax year. On the Form W-4, claim zero exemptions and show an "additional amount you want withheld from each paycheck". The "additional amount" should be enough to meet your total estimated tax liability. Alternatively, your employer may merely have you submit a written request regarding the total amount of tax you want withheld from each paycheck.

Tax-favored Savings Plans

Tax-sheltered annuities (TSAs), individual retirement accounts (IRAs), and the Coverdell education savings accounts are types of tax-favored investments.

TSAs

Tax-sheltered annuities (TSAs) enable an employee to postpone income tax on a portion of their earnings presumably until retirement. This investment opportunity is available to all employees of tax-exempt organizations according to Section 403(b) of the Internal Revenue Code. For ministers, these contributions are also not included as income subject to self-employment tax.

Some Lutheran employers sponsor a TSA for their employees to allow them to make contributions to this tax-deferred investment, but do not make any separate contributions. If your employer sponsors such a plan, you may ask to have a portion of your current salary reduced and contributed to the plan. However, more employers are beginning to make additional contributions to their employees' TSAs either as a fixed percentage of employee compensation or as a "matching" contribution.

Lutheran employers participating in Concordia Retirement Plan and Concordia Disability and Survivor Plan may also add Concordia Retirement Savings Plan (CRSP), a 403(b) tax-sheltered annuity plan administered through Fidelity Investments. Employer contributions to CRSP are voluntary.

Earnings below a certain amount may also qualify you for a tax credit. The credit is in addition to the tax-deferment benefit. Refer back in the text to *TSA Tax Credit* for details concerning qualifications for the bonus credit.

To determine your maximum contribution amount, contact your TSA agent or financial advisor. Contributions in excess of the limit may be subject to excise taxes. For more information, obtain IRS Publication 571, *Tax Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations*.

IRAs (traditional and Roth)

You may contribute a portion of your earned income to deductible and nondeductible types of individual retirement accounts or annuities (“IRAs”). Also, you may open an IRA plan for your non-working spouse (if applicable). You and your spouse may each make annual contributions in aggregate to such plans of \$5,500 through 2017. You, not your employer, open your own IRA account and fund it with your own contributions. Taxpayers aged 50 or older can annually make an additional \$1,000 catch-up contribution to traditional and Roth IRAs. Contributions to IRAs are not deductible for self-employment tax purposes. For more information about their income tax-benefits and distribution restrictions, obtain IRS Publication 590, *Individual Retirement Accounts*.

Coverdell Education Savings Accounts

Another tax-favored savings plan is available to help low to middle-income families save for education expenses. Formerly called “Education IRA”, you can open one of these accounts for each of your children (under age 18). Although contributions are made to such plans with “after-tax” dollars, these funds are permitted to grow tax-free until distributed. Also, you may contribute to these plans for any given tax year up until the day your tax return is due. Thus, you may make 2016 contributions until April 15, 2017.

Annual contributions made to a Coverdell education savings account cannot exceed \$2000. This amount is gradually phased out for joint tax filers having an adjusted gross income in the range of \$190,000-\$220,000 and \$95,000-\$110,000 for single filers.

Distributions may be used for elementary and secondary education expenses, whether incurred in a private, public or religious school. Distributions (including rollovers to another qualifying individual’s education IRA) can be made anytime before the beneficiary reaches age 30 or within 30 days thereafter. At the end of the 30-day deadline, any undistributed funds will be deemed distributed. Distributions for uses other than education require the beneficiary to include the earned interest in income and pay a 10-percent penalty. However, funds can be rolled over into another similar account for a member of the beneficiary’s family (includes legal descendants, spouse, and adopted children all of whom must be under age 30) to further defer or possibly avoid payment of tax on the earnings. There are special rules lengthening the contribution and holding period for children with special needs. For more information about education IRAs, obtain IRS Publication 590, *Individual Retirement Accounts*.

Health Savings Accounts

Congress created Health Savings Accounts (HSAs) to work in conjunction with high-deductible health plans. If your congregation offers you a high-deductible health plan you may qualify to open separate HSA accounts for yourself and your covered spouse (if applicable) to save money for out-of-pocket medical expenses.

An HSA is an individually owned account that can be funded by you and/or your employer. You can be reimbursed tax-free from the account for your qualified medical expenses. Or, if not used, the money may accumulate with tax-free interest even into retirement. After age 65, you can continue withdrawing funds as needed for medical expenses tax free or you can withdraw funds for any other purpose and pay normal taxes.

HSAs can be set up through banks, investment firms, and some insurance companies. Also, the

Lutheran Church Extension Fund offers HSAs. For more information about HSAs, refer to IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

Additional Information You May Need

Most other additional information you may need can be found in the following IRS publications:

- Pub. 17**, Your Federal Income Tax
- Pub. 463**, Travel, Entertainment, Gift, and Car Expenses
- Pub. 505**, Tax Withholding and Estimated Tax
- Pub. 517**, Social Security and Other Information for Members of the Clergy and Religious Workers
- Pub. 521**, Moving Expenses
- Pub. 523**, Selling Your Home
- Pub. 525**, Taxable and Nontaxable Income
- Pub. 529**, Miscellaneous Deductions
- Pub. 530**, Tax Information for Homeowners
- Pub. 535**, Business Expenses
- Pub. 571**, Tax-Sheltered Annuity Plans (403 b Plans) for Employees of...Certain Tax-Exempt Organizations
- Pub. 587**, Business Use of Your Home
- Pub. 590-A**, Contributions to Individual Retirement Arrangements (IRAs)
- Pub. 590-B**, Distributions from Individual Retirement Arrangements (IRAs)
- Pub. 596**, Earned Income Credit
- Pub. 936**, Home Mortgage Interest Deduction
- Pub. 946**, How to Depreciate Property
- Pub. 969**, Health Savings Accounts and Other Tax-Favored Health Plans
- Pub. 972**, Child Tax Credit
- _____, IRS Ministers Audit Techniques Guide

You can get this information and tax forms by:

Personal computer: World Wide Web—<http://www.irs.gov>

Telephone: 1-800-TAX-FORMS (1-800-829-3676) FAX: 1-703-487-4160

As always, your district manager or Mrs. Karen Sansone at Synod's Accounting Department is available for questions. You can contact Karen by telephone: 800-248-1930, ext. 1441 or fax: 314-996-1089 or e-mail: karen.sansone@lcms.org.

APPENDIX

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Estimated Taxes Worksheet 20__

Note: This worksheet is designed merely to estimate your tax liability for withholding purposes, not to calculate your actual tax.

Self-employment tax computation:

Salary (including Housing Allowance, excluding TSA contributions)		\$ _____(1)
Other earned net income (guest preaching, etc.)		\$ _____(2)
Total Income		\$ _____(3)
Subtract:		
Unreimbursed employee expenses (regardless if they will be deductible for income tax)		\$ _____(4)
Total self-employment income (line 3 minus line 4)		\$ _____(5)
	Multiplier x0.9235	
Net self-employment income		\$ _____(6)
Self-employment tax rate		x0.153
		\$ _____(7)

Self-employment tax

Federal income tax computation:

Income:		
Salary (exclude Housing Allowance and TSA contributions)		\$ _____(8)
Other earned net income		\$ _____(9)
Taxable interest, dividends and capital gains		\$ _____(10)
Other taxable income		\$ _____(11)
Total income (add lines 8 thru 11)		\$ _____(12)
Subtract:		
½ Self-employment tax (line 7)		\$ _____(13)
Deductible IRA contributions		\$ _____(14)
Other adjustments (e.g., unreimbursed qualified moving expenses, educational loan interest)		\$ _____(15)
Total subtractions (add line 13 thru 15)		\$ _____(16)
Adjusted gross income (line 12 minus line 16)		\$ _____(17)
Personal exemptions @ \$ _____ x no. _____		\$ _____(18)
CHOOSE ONE {	Standard deduction (use applicable table)	\$ _____(19)
	-or-	
Estimated Schedule A deductions (enter the greater of lines 19 and 20 on line 21)		\$ _____(20)
Taxable income (line 17 minus line 18 and line 21)		\$ _____(22)
Tax before nonrefundable credits (calculate using applicable table)		\$ _____(23)
Nonrefundable credits (child tax credit, credits for child care, education, and low-income taxpayers' TSA and IRA contributions)		\$ _____(24)
Tax after nonrefundable credits (line 23 minus line 24; if result is negative, enter "-0-")		\$ _____(25)
Earned Income Credit		\$ _____(26)
Federal Income Tax (line 25 minus line 26)		\$ _____(27)
Combined estimated tax liability (line 7 plus line 27)		\$ _____(28)

You can estimate your tax using IRS tax tables; those for 2017 are provided. Since IRS adjusts these tables annually, use caution obtaining current data for your future calculations.

Tables for Estimated Taxes Worksheet

2017 Standard Deduction (line 19)	
Filing Status:	
Single or married filing separately	\$ 6,350
Married filing jointly or qualifying widow or widower	\$ 12,700
Head of Household	\$ 9,350

2017 Personal Exemption (line 18)	
Per person	\$ 4,050

2017 Federal Tax Table (line 23)	
If 2017 taxable income (line 22) is:	The tax is:
Single Individuals:	
Not over \$9,325.....	10% of taxable income
Over \$9,325 but not over \$37,950.....	\$932.50 plus 15% of the excess over \$9,325
Over \$37,950 but not over \$91,900.....	\$5,226.25 plus 25% of the excess over \$37,950
Married filing joint returns:	
Not over \$18,650.....	10% of taxable income
Over \$18,650 but not over \$75,900.....	\$1,865 plus 15% of the excess over \$18,650
Over \$75,900 but not over \$153,100.....	\$10,452.50 plus 25% of the excess over \$75,900
Married filing separate returns:	
Not over \$9,325.....	10% of taxable income
Over \$9,325 but not over \$37,950.....	\$932.50 plus 15% of the excess over \$9,325
Over \$37,950 but not over \$76,550.....	\$5,226.25 plus 25% of the excess over \$37,950
Head of Household:	
Not over \$13,350.....	10% of taxable income
Over \$13,350 but not over \$50,800.....	\$1,335 plus 15% of the excess over \$13,350
Over \$50,800 but not over \$131,200.....	\$6,952.50 plus 25% of the excess over \$50,800

2017 Quarterly Payment (line 28 divided by remaining quarters)		
Period:	Due:	Amount (fill-in)
Jan 1—Mar 31	4/18/2017	\$
Apr 1—Jun 30	6/15/2017	\$
Jul 1—Sep 30	9/15/2017	\$
Oct 1—Dec 31	1/17/2018	\$

The information contained in these tables changes annually and is published in IRS Form 1040-ES (www.irs.gov).