

Part 4. Comprehensive Examples and Forms

Example One: Active minister

Note: This example is based on an illustrated example contained at the end of IRS Publication 517.

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 \$45,000. 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 \$12,000. 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 a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450 and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his parsonage allowance. The home's fair rental value is \$1,380 per month (including furnishings and utilities).

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 Rev. Michaels will assemble the return to send it to the IRS.

Form W-2 from church

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

Box 1. The church entered Rev. Michaels' \$45,000 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 housing allowance for the year and identified it.

TurboTax tips: Listed below are tips for ministers who use TurboTax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your W-2 from your church. Please note that, at the time of publication, the 2013 TurboTax software had not been released, so the TurboTax tips listed throughout this example are based on the 2012 version of the software. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

1. "Do any of these apply to this W-2?"

Be sure to check the box that says, "I earned this income for religious employment (ministry, religious sect)."

2. "About your religious employment."

Please note that ministers fall under the category of clergy employment.

3. "Tell us about your minister housing."

TurboTax then asks for the parsonage or housing allowance, as well as the amount of qualifying expenses.

The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (including furnishings and utilities) or the amount of your pay that was designated as ministerial housing allowance by your Church.

4. "How would you like us to calculate ministry self-employment tax?"

Please note that self-employment tax should be paid on wages and housing allowance. See Schedule SE TurboTax Tip for additional information.

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 \$253 for 448 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 56.5 cents by 448 miles for a total of \$253. These expenses total \$340 (\$253 + \$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 25% (or \$85) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$85 from the \$340 and enters the \$255 difference on line 2.

Line 3. He enters his net profit of \$3,745 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.

TurboTax tip: TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

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 2,531 business miles, which he reports in Part II. On line 1, he multiplies 2,531 miles driven by the mileage rate of 56.5 cents. The combined result of \$1,430 is reported on line 1.

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 25% (or \$412) of his employee business expenses are not deductible because they are allocable to the tax-free parsonage allowance. He subtracts \$412 from \$1,649 and enters the result, \$1,237, on line 6. He also enters \$1,237 on line 21 of Schedule A (*Form 1040*).

TurboTax tip: TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

Schedule A (Form 1040)

Rev. Michaels fills out Schedule A as explained here.

Line 5. Rev. and Mrs. Michaels do not pay state income tax; however, a deduction is available for state and local general sales taxes. For the purpose of this example, the author did not include an amount on Schedule A.

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

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

Line 16. Rev. and Mrs. Michaels contributed \$4,800 in cash during the year to various qualifying charities. Each individual contribution was less than \$250. For each contribution, Rev. and Mrs. Michaels maintain the required bank record (such as a cancelled check) or written communication from the charity showing the charity's name, the amount of the contribution and the date of the contribution. (This substantiation is required in order for any contribution of money [cash, check or other monetary instrument] made in 2007 and thereafter to be deductible.)

Line 21. Rev. Michaels enters his unreimbursed employee business expenses from *Form 2106-EZ*, line 6.

Lines 25, 26 and 27. 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 29. The total of all the Michaels' itemized deductions is \$13,639, which they enter on line 29 and on *Form 1040*, line 40.

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 (\$63,811) he enters here.

Line 4. He multiplies \$63,811 by .9235 to get his net earnings from self-employment (\$58,929).

Line 5. The amount on line 4 is less than \$113,700, so Rev. Michaels multiplies the amount on line 4 (\$58,929) by .153 to get his self-employment tax of \$9,016. He enters that amount here and on *Form 1040*, line 56.

Line 6. Rev. Michaels multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$4,508. He enters that amount here and on *Form 1040*, line 27.

TurboTax tip: The software asks about self-employment tax on ministry wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the SE tax). Please note that the software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software.

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 \$48,640. This amount is the total of his \$45,000 church salary, \$3,400 college salary and \$240, the excess of the amount designated and paid to him as a parsonage allowance over the lesser of his actual expenses and the fair rental value of his home (including furnishings and utilities). The two salaries were reported to him in box 1 of the *Form W-2* he received.

Line 12. He reports his net profit of \$3,745 from Schedule C-EZ, line 3.

Line 27. He enters \$4,508, the deductible part of his SE tax from Schedule SE, line 6.

Line 37. Subtract line 36 from line 22. This is his adjusted gross income and he carries this amount forward to line 38.

Line 40. He enters the total itemized deductions from Schedule A, line 29.

Line 42. He multiplies the number of exemptions claimed (3 from Line 6d) by \$3,900 and enters an exemption amount of \$11,700 on line 42.

Line 51. The Michaels's can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the Child Tax Credit Worksheet (not shown) contained in the *Form 1040* general instructions. He enters the \$1,000 credit. (Note: The Michaels are not required to attach Schedule 8812 to claim the child tax credit since their daughter does not have an individual taxpayer identification number (ITIN). The IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for Social Security numbers (SSNs). Since Jennifer has a SSN, she is not required to obtain an ITIN and therefore Schedule 8812 is not applicable.)

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 \$12,000 estimated tax payments he made for the year.

a Employee's social security number 011-00-1111		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
OMB No. 1545-0008					
b Employer identification number (EIN) 00-0246810		1 Wages, tips, other compensation 45,000.00		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 Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name John E. Michaels 1040 Main Street Hometown, Texas 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 \$16,800		12c	
f Employee's address and ZIP code				12d	
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

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Sample: From church

For the year Jan. 1–Dec. 31, 2013, or other tax year beginning , 2013, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number John E. Michaels 0 1 1 0 0 1 1 1 1

If a joint return, spouse's first name and initial Last name Spouse's social security number Susan R. Michaels 0 1 1 0 0 2 2 2 2

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. 1040 Main Street Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Presidential Election Campaign Hometown, Texas 77099

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

Filing Status 1 Single 2 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 instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. 6b Spouse. Boxes checked on 6a and 6b: 2. No. of children on 6c who: lived with you: 1. did not live with you due to divorce or separation (see instructions). Dependents on 6c not entered above. Add numbers on lines above: 3.

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 Excess parsonage allowance \$240. 7 48,640. 8a Taxable interest. Attach Schedule B if required. 8a. 8b Tax-exempt interest. Do not include on line 8a. 8b. 9a Ordinary dividends. Attach Schedule B if required. 9a. 9b Qualified dividends. 9b. 10 Taxable refunds, credits, or offsets of state and local income taxes. 10. 11 Alimony received. 11. 12 Business income or (loss). Attach Schedule C or C-EZ. 12 3,745. 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here. 13. 14 Other gains or (losses). Attach Form 4797. 14. 15a IRA distributions. 15a. 15b Taxable amount. 15b. 16a Pensions and annuities. 16a. 16b Taxable amount. 16b. 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 17. 18 Farm income or (loss). Attach Schedule F. 18. 19 Unemployment compensation. 19. 20a Social security benefits. 20a. 20b Taxable amount. 20b. 21 Other income. List type and amount. 21. 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income. 22 52,385.

Adjusted Gross Income 23 Educator expenses. 23. 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ. 24. 25 Health savings account deduction. Attach Form 8889. 25. 26 Moving expenses. Attach Form 3903. 26. 27 Deductible part of self-employment tax. Attach Schedule SE. 27 4,508. 28 Self-employed SEP, SIMPLE, and qualified plans. 28. 29 Self-employed health insurance deduction. 29. 30 Penalty on early withdrawal of savings. 30. 31a Alimony paid b Recipient's SSN. 31a. 32 IRA deduction. 32. 33 Student loan interest deduction. 33. 34 Tuition and fees. Attach Form 8917. 34. 35 Domestic production activities deduction. Attach Form 8903. 35. 36 Add lines 23 through 35. 36 4,508. 37 Subtract line 36 from line 22. This is your adjusted gross income. 37 47,877.

Tax and Credits

Table with 3 columns: Line number, Description, and Amount. Includes lines 38-55 for Tax and Credits.

Standard Deduction for -

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
• All others: Single or Married filing separately, \$6,100
Married filing jointly or Qualifying widow(er), \$12,200
Head of household, \$8,950

Other Taxes

Table with 3 columns: Line number, Description, and Amount. Includes lines 56-61 for Other Taxes.

Payments

If you have a qualifying child, attach Schedule EIC.

Table with 3 columns: Line number, Description, and Amount. Includes lines 62-72 for Payments.

Refund

Direct deposit? See instructions.

Table with 3 columns: Line number, Description, and Amount. Includes lines 73-75 for Refund.

Amount You Owe

Table with 3 columns: Line number, Description, and Amount. Includes lines 76-77 for Amount You Owe.

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? Yes. Complete below. No
Designee's name, Phone no., Personal identification number (PIN)

Sign Here

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 instructions. Keep a copy for your records.

Your signature: John Michaels, Date: 3/15/14, Your occupation: Minister, Daytime phone number: 212-444-5555
Spouse's signature: Susan Michaels, Date: 3/15/14, Spouse's occupation: Homemaker

Paid Preparer Use Only

Print/Type preparer's name, Preparer's signature, Date, Check if self-employed, PTIN, Firm's name, Firm's EIN, Firm's address, Phone no.

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

► Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
► Attach to Form 1040.

OMB No. 1545-0074

2013
Attachment
Sequence No. **07**

Name(s) shown on Form 1040		Your social security number	
John E. & Susan R. Michaels		011-00-1111	
Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.		
	1 Medical and dental expenses (see instructions)	1	
	2 Enter amount from Form 1040, line 38 <u>2</u>		
	3 Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1949, multiply line 2 by 7.5% (.075) instead	3	
4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4	
Taxes You Paid	5 State and local (check only one box):	5	
	a <input type="checkbox"/> Income taxes, or	}	
	b <input type="checkbox"/> General sales taxes		
	6 Real estate taxes (see instructions)	6	1,750
	7 Personal property taxes	7	
	8 Other taxes. List type and amount ►	8	
	9 Add lines 5 through 8	9	1,750
	Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10
11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►		11	
12 Points not reported to you on Form 1098. See instructions for special rules		12	
13 Mortgage insurance premiums (see instructions)		13	
14 Investment interest. Attach Form 4952 if required. (See instructions.)		14	
15 Add lines 10 through 14		15	6,810
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	4,800
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	
	18 Carryover from prior year	18	
	19 Add lines 16 through 18	19	4,800
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	21	1,237
	22 Tax preparation fees	22	
	23 Other expenses—investment, safe deposit box, etc. List type and amount ►	23	
	24 Add lines 21 through 23	24	1,237
	25 Enter amount from Form 1040, line 38 <u>25</u> 47,877		
	26 Multiply line 25 by 2% (.02)	26	958
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		27
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ►	28	
Total Itemized Deductions	29 Is Form 1040, line 38, over \$150,000?	}	29
	<input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.		
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here		

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

Department of the Treasury
Internal Revenue Service (99)

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

OMB No. 1545-0074

2013
Attachment
Sequence No. **09A**

Name of proprietor

John E. Michaels

Social security number (SSN)

011-00-1111

Part I General Information

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

- Had business expenses of \$5,000 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 either a sole proprietor, qualified joint venture, or statutory employee.

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, 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 business code (see page 2)

5 | 4 | 1 | 9 | 9 | 0

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

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

1042 Main Street

City, town or post office, state, and ZIP code

Hometown, Texas 77099

F Did you make any payments in 2013 that would require you to file Form(s) 1099? (see the Schedule C instructions)

Yes No

G If "Yes," did you or will you file required Forms 1099?

Yes No

Part II Figure Your Net Profit

1	Gross receipts. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory Employees</i> in the instructions for Schedule C, line 1, and check here	<input type="checkbox"/>	1	4,000	
2	Total expenses (see page 2). If more than \$5,000, you must use Schedule C		2	255	*
3	Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both Form 1040, line 12 , and Schedule SE, line 2 , or on Form 1040NR, line 13 and Schedule SE, line 2 (see instructions). (Statutory employees, do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3		3	3,745	

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) ▶ 07/15/07
- 5** Of the total number of miles you drove your vehicle during 2013, enter the number of miles you used your vehicle for:
- a** Business 448 **b** Commuting (see page 2) 0 **c** Other 7,466
- 6** Was your vehicle available for personal use during off-duty hours? **Yes** **No**
- 7** Do you (or your spouse) have another vehicle available for personal use? **Yes** **No**
- 8a** Do you have evidence to support your deduction? **Yes** **No**
- b** If "Yes," is the evidence written? **Yes** **No**

* See statement attached.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese.
► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2013
Attachment
Sequence No. **17**

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

John E. Michaels

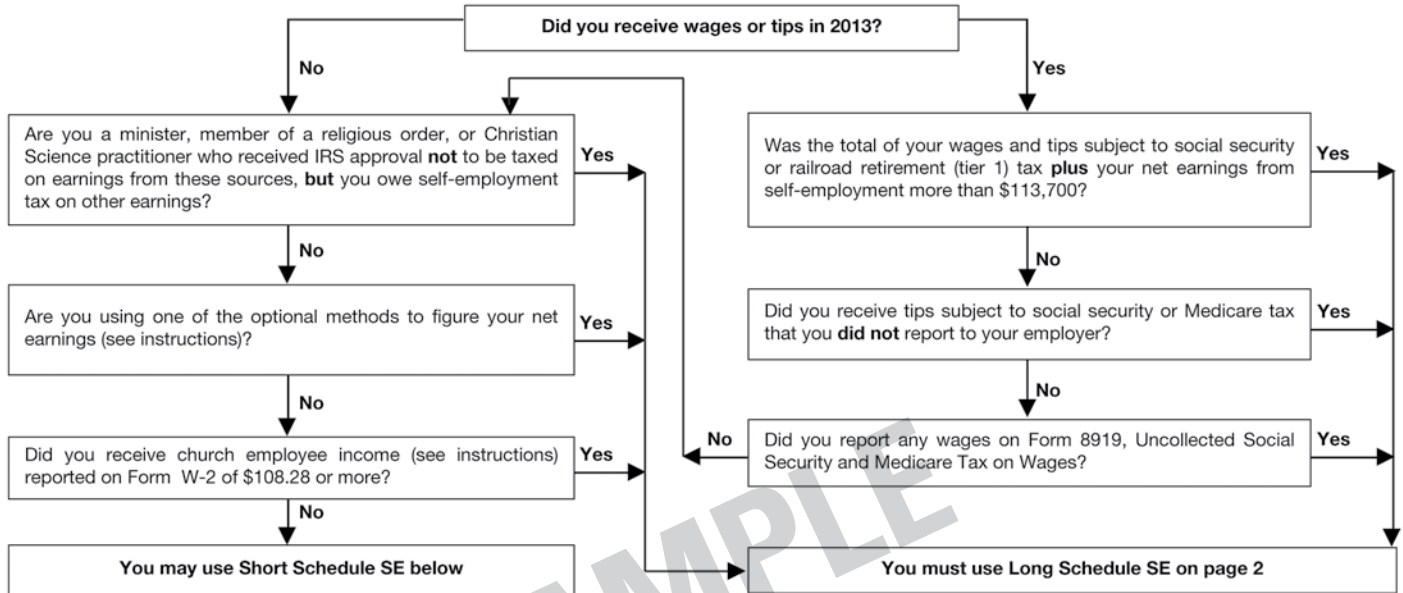
Social security number of person
with self-employment income ►

011-00-1111

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

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

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



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

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a		
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	63,811	*
3 Combine lines 1a, 1b, and 2	3	63,811	
4 Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b ►	4	58,929	
Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.			
5 Self-employment tax. If the amount on line 4 is: • \$113,700 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 56 , or Form 1040NR, line 54 • More than \$113,700, multiply line 4 by 2.9% (.029). Then, add \$14,098.80 to the result. Enter the total here and on Form 1040, line 56 , or Form 1040NR, line 54	5	9,016	
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.50). Enter the result here and on Form 1040, line 27 , or Form 1040NR, line 27	6	4,508	

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2013

* See statement attached.

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

Social security number of person with self-employment income

Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is church employee income, see instructions. Also see instructions for the definition of church employee income.

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

Table with 13 rows (1a-13) for self-employment tax calculation. Includes columns for line numbers and values. Line 7 value is 113,700.00.

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method only if (a) your gross farm income was not more than \$6,960, or (b) your net farm profits were less than \$5,024.

Table with 2 rows (14-15) for Farm Optional Method. Line 14 value is 4,640.00.

Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits were less than \$5,024 and also less than 72.189% of your gross nonfarm income, and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution. You may use this method no more than five times.

Table with 2 rows (16-17) for Nonfarm Optional Method.

1 From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

2 From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

3 From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

4 From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Unreimbursed Employee Business Expenses

2013

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Form 2106 and its separate instructions is available at www.irs.gov/form2106.

Attachment
Sequence No. **129A**

Your name John E. Michaels	Occupation in which you incurred expenses Minister	Social security number 0 1 1 0 0 1 1 1 1
-------------------------------	---	---

You Can 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 for this purpose).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2013.

Caution: You can use the standard mileage rate for 2013 **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	Complete Part II. Multiply line 8a by 56.5¢ (.565). Enter the result here	1	1,430	
2	Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2		
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3		
4	Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	219	
5	Meals and entertainment expenses: \$ _____ × 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	5		
6	Total expenses. Add lines 1 through 5. Enter here and on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces reservists, 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.)	6	1,237	*

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) ▶ ____ 07 / 15 / 07 _____

8 Of the total number of miles you drove your vehicle during 2013, enter the number of miles you used your vehicle for:

a Business _____ 2,531 _____ b Commuting (see instructions) _____ c Other _____ 5,112 _____

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

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

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

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

* See statement attached.

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

		Taxable	Tax-Free	Total
Salary as a minister		\$ 45,000		\$ 45,000
Parsonage allowance:				
Amount designated and paid by church (\$1,400 x 12)	\$ 16,800			
Actual expenses				
(Mortgage \$1,125 x 12, Utilities/other \$1,450, Real estate taxes \$1,750)	16,700			
Fair rental value of home (including furnishings and utilities) (\$1,380 x 12)	16,560			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 240</u>	240		240
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			16,560	16,560
Gross income from weddings, baptisms, and honoraria		4,000		4,000
Ministerial Income		<u>\$ 49,240</u>	<u>\$ 16,560</u>	<u>\$ 65,800</u>
% of nondeductible expenses: \$16,560/\$65,800 = 25%				

Schedule C-EZ Deduction Computation

Marriage and family booklets		\$ 87
Business use of car:		
448 miles x 56.5c		<u>253</u>
Unadjusted Schedule C-EZ expenses		340
Minus:		
Nondeductible part of Schedule C-EZ expenses (25% x \$340)		<u>(85)</u>
Schedule C-EZ deductions (line 2)		<u>\$ 255</u>

Form 2106-EZ - Employee Business Expense Deduction Computation

Car expenses for church business:		
2,531 miles x 56.5c		\$ 1,430
Publications and booklets		<u>219</u>
Unadjusted Form 2106-EZ expenses		1,649
Minus:		
Nondeductible part of Form 2106-EZ expenses (25% x \$1,649)		<u>(412)</u>
Employee business expense deduction - Form 2106-EZ line 6		<u>\$ 1,237</u>

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		\$ 45,000
Parsonage allowance		16,800
Net profit from Schedule C-EZ		<u>3,745</u>
		65,545
Less:		
Schedule C-EZ expenses allocable to tax-free income	\$ 85	
Ministerial employee business expenses		
(unadjusted Form 2106-EZ expenses)	<u>1,649</u>	<u>(1,734)</u>
Net Self-Employment Income		
Schedule SE, Section A, line 2		<u>\$ 63,811</u>

Example Two: Retired minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2013, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by GuideStone as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (including furnishings and utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received \$12,000 of Social Security benefits in 2013 and his wife received \$6,000. None of this income is taxable, however, because the Green's income is not enough to expose their Social Security benefits to tax.

In 2013, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$590 in expenses as a result of these activities (\$440 of travel expenses and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see Schedule SE), since it represents compensation from active ministry.

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

Form 1099-R from GuideStone

GuideStone completed *Form 1099-R* for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from GuideStone.

Box 2b. Taxable amount not determined. GuideStone designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities).

Box 7. Rev. Green's pension income is a normal distribution.

Schedule C-EZ (Form 1040)

Some of Rev. Green's entries on Schedule C-EZ are explained here.

Line 1b. Rev. Green reports the \$2,000 from occasional guest preaching engagements.

Line 2. Green reports his expenses related to the line 1 amount. He drove 779 miles of business use of his car, in connection

with guest preaching. Rev. Green used the standard business mileage rate to figure his car expense. He multiplied the standard mileage rate of 56.5 cents by 779 miles for a total of \$440. He also incurred \$75 (\$150 x 50% non-deductible) in meal expenses in connection with the guest preaching for total expenses of \$515. 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 76% (or \$391) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$391 from the \$515 and enters the \$124 difference on line 2.

Line 3. He enters his net profit of \$1,876 both on line 3 and on *Form 1040*, line 12.

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

TurboTax tips: Listed below are tips for ministers who use TurboTax to complete their returns. Please note that, at the time of publication, the 2013 TurboTax software had not been released, so the TurboTax tips listed throughout this example are based on the 2012 version of the software. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

Schedule SE (Form 1040)

After Rev. Green prepares Schedule C-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. Ministers are not church employees under this definition. He fills out the following lines in Section A.

Line 2. Rev. Green attaches a statement (see Attachment 2 later) that calculates his net profit of \$1,485 and he enters that amount here.

Line 4. He multiplies the \$1,485 by .9235 to get his net earnings from self-employment (\$1,371).

Line 5. The amount on line 4 is less than \$113,700, so Rev. Green multiplies the amount on line 4 (\$1,371) by .153 to get his self-employment tax of \$210. He enters that amount here and on *Form 1040*, line 56.

Line 6. Rev. Green multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$105. He enters that amount here and on *Form 1040*, line 27.

TurboTax tips: The software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software.

Form 1040

After Rev. Green prepares Schedule C-EZ and Schedule SE, he fills out *Form 1040*. Rev. Green 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 12. He reports his net profit of \$1,876 from Schedule C-EZ, line 3.

Line 16a and 16b. Rev. Green reports his total annuity income of \$15,000 on line 16a. He reports the taxable amount (\$2,000) as computed on Attachment 1 (shown later) on line 16b.

Line 20a and 20b. Since none of Rev. Green's Social Security benefits are taxable, he does not report any amounts on line 20a or 20b.

Line 27. He enters \$105, the deductible part of his SE tax from Schedule SE, line 6.

Line 37. Subtract line 36 from line 22. This is his adjusted gross income, and he carries this amount forward to line 38.

Line 39a. He checks the boxes indicating that he and his wife were born before January 2, 1949 and enters "2" in the "total" box.

Line 40. Rev. Green enters his standard deduction of \$14,600 which takes into consideration the fact he and his wife were born before January 2, 1949.

Line 42. He multiplies the number of exemptions claimed (2 from Line 6d) by \$3,900 and enters an exemption amount of \$7,800 on line 42.

Line 43. Rev. Green has no taxable income.

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

Line 62. Rev. Green did not have any income tax withheld from his pension.

Line 76. Amount Rev. Green owes to the IRS.

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code GuideStone Financial Resources of the Southern Baptist Convention 2401 Cedar Springs Rd Dallas, TX 75201-1498 1-888-984-8433		1 Gross distribution \$ 15,000.00	OMB No. 1545-0119 2013 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S federal identification number 75-0939949		2a Taxable amount \$	2b Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>		
PAYER'S federal identification number 75-0939949		RECIPIENT'S identification number 202-20-2002	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$	
RECIPIENT'S name William K. Green		5 Employee contributions / Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$	
Street address (including apt. no.) 787 Adams Street		7 Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City or town, province or state, country, and ZIP or foreign postal code Anytown, NY 10002		9a Your percentage of total distribution %		9b Total employee contributions \$	
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$	
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	

Copy B
Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the Internal Revenue Service.

Form **1099-R**

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

For the year Jan. 1–Dec. 31, 2013, or other tax year beginning , 2013, ending , 20 See separate instructions.

Your first name and initial Last name William K. Green Your social security number 2 0 2 | 2 0 | 2 0 0 2

If a joint return, spouse's first name and initial Last name Sarah J. Green Spouse's social security number 3 0 3 | 3 0 | 3 0 0 3

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. 787 Adams Street

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Anytown, New York 10002

Foreign country name Foreign province/state/county Foreign postal code

Make sure the SSN(s) above and on line 6c are correct.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status 1 Single 2 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 instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. 6b Spouse. Boxes checked on 6a and 6b: 2. No. of children on 6c who: lived with you; did not live with you due to divorce or separation (see instructions). Dependents on 6c not entered above. Add numbers on lines above: 2.

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7 8a Taxable interest. Attach Schedule B if required. 8a 8b Tax-exempt interest. Do not include on line 8a. 8b 9a Ordinary dividends. Attach Schedule B if required. 9a 9b Qualified dividends. 9b 10 Taxable refunds, credits, or offsets of state and local income taxes. 10 11 Alimony received. 11 12 Business income or (loss). Attach Schedule C or C-EZ. 12 1,876 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here. 13 14 Other gains or (losses). Attach Form 4797. 14 15a IRA distributions. 15a 15b Taxable amount. 15b 16a Pensions and annuities. 16a 15,000 16b Taxable amount. 16b 2,000 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 17 18 Farm income or (loss). Attach Schedule F. 18 19 Unemployment compensation. 19 20a Social security benefits. 20a 20b Taxable amount. 20b 21 Other income. List type and amount. 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income. 22 3,876

Adjusted Gross Income 23 Educator expenses. 23 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ. 24 25 Health savings account deduction. Attach Form 8889. 25 26 Moving expenses. Attach Form 3903. 26 27 Deductible part of self-employment tax. Attach Schedule SE. 27 105 28 Self-employed SEP, SIMPLE, and qualified plans. 28 29 Self-employed health insurance deduction. 29 30 Penalty on early withdrawal of savings. 30 31a Alimony paid b Recipient's SSN. 31a 32 IRA deduction. 32 33 Student loan interest deduction. 33 34 Tuition and fees. Attach Form 8917. 34 35 Domestic production activities deduction. Attach Form 8903. 35 36 Add lines 23 through 35. 36 105 37 Subtract line 36 from line 22. This is your adjusted gross income. 37 3,771

Tax and Credits

Table with 3 columns: Line number, Description, and Amount. Includes lines 38-55 for Tax and Credits, such as Adjusted Gross Income, Exemptions, and Total Credits.

Standard Deduction for—

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
• All others:
Single or Married filing separately, \$6,100
Married filing jointly or Qualifying widow(er), \$12,200
Head of household, \$8,950

Other Taxes

Table with 3 columns: Line number, Description, and Amount. Includes lines 56-61 for Other Taxes, such as Self-employment tax and Unreported social security and Medicare tax.

Payments

If you have a qualifying child, attach Schedule EIC.

Table with 3 columns: Line number, Description, and Amount. Includes lines 62-72 for Payments, such as Federal income tax withheld and Earned income credit.

Refund

Direct deposit? See instructions.

Table with 3 columns: Line number, Description, and Amount. Includes lines 73-75 for Refund, such as Amount overpaid and Amount applied to 2014 estimated tax.

Amount You Owe

Table with 3 columns: Line number, Description, and Amount. Includes lines 76-77 for Amount You Owe, such as Amount you owe and Estimated tax penalty.

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? Yes. Complete below. No
Designee's name, Phone no., Personal identification number (PIN)

Sign Here

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

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature: William Green, Date: 3/15/14, Your occupation: Retired Minister, Daytime phone number: 212-333-4444
Spouse's signature: Sarah Green, Date: 3/15/14, Spouse's occupation: Retired

Paid Preparer Use Only

Print/Type preparer's name, Preparer's signature, Date, Check if self-employed, PTIN, Firm's name, Firm's EIN, Firm's address, Phone no.

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

Department of the Treasury
Internal Revenue Service (99)

Name of proprietor
William K. Green

Net Profit From Business
(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.**
▶ **Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.**

OMB No. 1545-0074

2013
Attachment
Sequence No. **09A**

Social security number (SSN)
202-20-2002

Part I General Information

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

- Had business expenses of \$5,000 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 either a sole proprietor, qualified joint venture, or statutory employee.

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, 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 business code (see page 2)
5 | 4 | 1 | 9 | 9 | 0

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

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2013 that would require you to file Form(s) 1099? (see the Schedule C instructions) Yes No

G If "Yes," did you or will you file required Forms 1099? Yes No

Part II Figure Your Net Profit

1	Gross receipts. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory Employees</i> in the instructions for Schedule C, line 1, and check here <input type="checkbox"/>	1	2,000	
2	Total expenses (see page 2). If more than \$5,000, you must use Schedule C	2	124	*
3	Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both Form 1040, line 12 , and Schedule SE, line 2 , or on Form 1040NR, line 13 and Schedule SE, line 2 (see instructions). (Statutory employees, do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3	3	1,876	

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) ▶ 07/15/07
- 5** Of the total number of miles you drove your vehicle during 2013, enter the number of miles you used your vehicle for:
- a** Business 779 **b** Commuting (see page 2) 0 **c** Other 12,711
- 6** Was your vehicle available for personal use during off-duty hours? Yes No
- 7** Do you (or your spouse) have another vehicle available for personal use? Yes No
- 8a** Do you have evidence to support your deduction? Yes No
- b** If "Yes," is the evidence written? Yes No

* See statement attached.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

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

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2013
Attachment
Sequence No. **17**

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

William K. Green

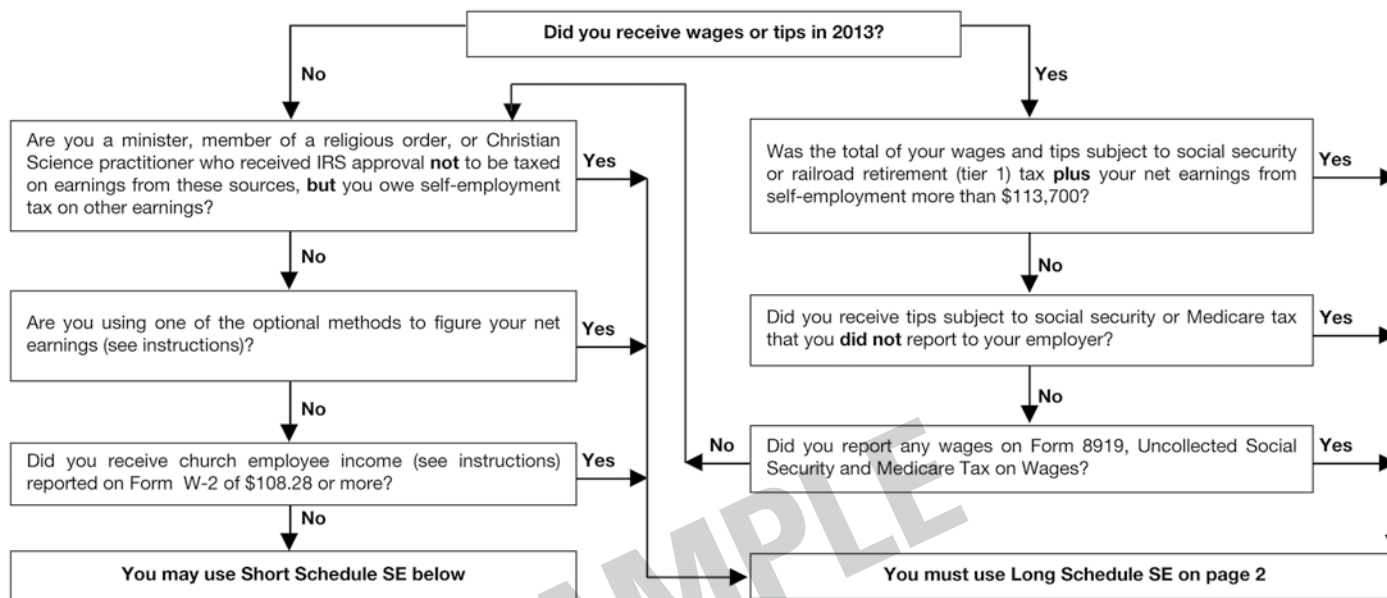
Social security number of person
with **self-employment** income ►

202-20-2002

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

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

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



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

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A		
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	1,485	*
3	Combine lines 1a, 1b, and 2	1,485	
4	Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b ► Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	1,371	
5	Self-employment tax. If the amount on line 4 is: • \$113,700 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 56, or Form 1040NR, line 54 • More than \$113,700, multiply line 4 by 2.9% (.029). Then, add \$14,098.80 to the result. Enter the total here and on Form 1040, line 56, or Form 1040NR, line 54.	210	
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27		
		6	105

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2013

* See statement attached.

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

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

Section B—Long Schedule SE

Part I Self-Employment Tax

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

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

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note.** Skip lines 1a and 1b if you use the farm optional method (see instructions) **1a**

b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z **1b** ()

2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note.** Skip this line if you use the nonfarm optional method (see instructions) **2**

3 Combine lines 1a, 1b, and 2 **3**

4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3 **Note.** If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions. **4a**

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . . **4b**

c Combine lines 4a and 4b. If less than \$400, **stop**; you do not owe self-employment tax. **Exception.** If less than \$400 and you had **church employee income**, enter -0- and continue ▶ **4c**

5a Enter your **church employee income** from Form W-2. See instructions for definition of church employee income **5a**

b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0- **5b**

6 Add lines 4c and 5b **6**

7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2013 **7** 113,700 00

8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$113,700 or more, skip lines 8b through 10, and go to line 11 **8a**

b Unreported tips subject to social security tax (from Form 4137, line 10) **8b**

c Wages subject to social security tax (from Form 8919, line 10) **8c**

d Add lines 8a, 8b, and 8c **8d**

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶ **9**

10 Multiply the **smaller** of line 6 or line 9 by 12.4% (.124) **10**

11 Multiply line 6 by 2.9% (.029) **11**

12 **Self-employment tax.** Add lines 10 and 11. Enter here and on **Form 1040, line 56, or Form 1040NR, line 54** **12**

13 **Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (.50). Enter the result here and on **Form 1040, line 27, or Form 1040NR, line 27** **13**

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income¹ was not more than \$6,960, **or (b)** your net farm profits² were less than \$5,024. **14** 4,640 00

14 Maximum income for optional methods **14** 4,640 00

15 Enter the **smaller** of: two-thirds (²/₃) of gross farm income¹ (not less than zero) **or** \$4,640. Also include this amount on line 4b above **15**

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits³ were less than \$5,024 and also less than 72.189% of your gross nonfarm income,⁴ **and (b)** you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution.** You may use this method no more than five times.

16 Subtract line 15 from line 14 **16**

17 Enter the **smaller** of: two-thirds (²/₃) of gross nonfarm income⁴ (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above **17**

¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

³ From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

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

% of Nondeductible Expenses				
		<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Parsonage allowance:				
Ministerial retirement benefits designated as housing allowance	\$ 15,000			
Actual expenses	\$ 13,000			
Fair rental value of home (including furnishings and utilities) (\$1,200 x 12)	\$ 14,400			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	\$ 2,000	\$ 2,000		\$ 2,000
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)				
			13,000	13,000
Gross income from occasional guest preaching engagements				
		2,000		2,000
Ministerial Income		<u>\$ 4,000</u>	<u>\$ 13,000</u>	<u>\$ 17,000</u>
% of nondeductible expenses: \$13,000/\$17,000 = 76%				

Schedule C-EZ Deduction Computation			
Business use of car:			
779 miles x 56.5¢			\$ 440
Meal expenses (\$150 less 50% reduction)			75
Unadjusted Schedule C-EZ expenses			\$ 515
Nondeductible part of expenses:			
\$515 X 76%			(391)
Schedule C-EZ deductions, line 2			<u>\$ 124</u>
None of the other deductions claimed in the return are allocable to tax-free income.			

Attachment 2. Computation of Net Earnings from Self-Employment

Computation for Schedule SE (Form 1040)	
Gross income from Schedule C-EZ	\$ 2,000
Less:	
Unadjusted Schedule C-EZ expenses	(515)
Net Self Employment Income, Schedule SE, Line 2	<u>\$ 1,485</u>

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