

TAX NOTICES TO PASTORS AND CONGREGATIONS

The Indiana Area has received a grant from Lilly Endowment Inc. to help us establish the new Rejuvenate project. This project is intended to benefit pastors by helping to reduce or eliminate economic pressures that undermine their ability to lead congregations effectively. The Rejuvenate project is supported by contributions from congregations and other funding sources as well as by the Lilly Endowment Inc. grant.

The Rejuvenate project includes an economic initiative that provides financial assistance for pastors and their families for specific purposes. A description of the project and the economic initiative is found on Rejuvenate's website: www.rejuvenateindiana.org

Please contact your tax advisor and inform them that you have received grants (Clergy Education Debt Reduction Grant, Family Emergency Fund Grant, Called Anew Grant or any other Rejuvenate related grant) from the Indiana United Methodist Foundation via Rejuvenate. You will receive a 1099 Misc. for the total amount of these grants. It is our belief that all of the funds you have received from Rejuvenate are taxable income and for that reason we will be giving you a onetime payment to cover our estimate of the cost of these income taxes. It is impossible for us to know your taxable situation so you must contact your tax advisor and ask them for their advice. Please do not rely upon our opinion as to the impact of this grant upon your taxes. We assume no liability in this matter.

As a guide, consider the following five points:

1. What Income is Subject to Tax? The IRS generally taxes all of your "income" from any source, including compensation for services, fringe benefits, and the cancellation (or discharge) of any loan that you owe. Internal Revenue Code section 61(a) (1) and (12).
2. Federal Income Tax Withholding. In most cases, a church is not required to withhold federal income tax from compensation paid to, or for the benefit of, an ordained minister. Therefore, you may receive payments that are subject to federal income tax but with respect to which no tax has been withheld and remitted to the IRS. (Ministers may enter into voluntary withholding agreements with their churches to have taxes automatically withheld from their pay.) If federal income tax over a certain amount (basically \$1,000) is not withheld from your income, you must pay the tax during the year on a quarterly "estimated tax" basis.
3. Social Security/Medicare Taxes. Compensation paid to a minister for services in the exercise of the ministry typically is not subject to the Federal Insurance Contributions Act (FICA), the statute under which most employees pay taxes to support Social Security and Medicare. Instead of FICA, however, most ministers are subject to tax under the Self-Employment Contributions Act (SECA), which normally requires direct payment on an "estimated tax" basis. (As with the federal income tax, ministers may enter into voluntary withholding agreements with their churches to cover all or part of their SECA obligation.)

4. IRS REPORTS. You may receive reports from us, your church, or other payers of income to you that will help in determining what federal taxes you owe. These forms include:

- a. Form W-2. The basic wage and tax statement from an employer.
- b. Form W-4. Employee's withholding allowance certificate (the form to establish a voluntary withholding arrangement).
- c. Form W-9. Request for taxpayer identification number and certification (the form required by a payer who is not your employer so that the payer will not be required to withhold federal income tax from payments to you).
- d. Form 1099-C. The form reporting income realized by you from the cancellation of a debt that you owed.
- e. Form 1099-MISC. A general income statement from a payer who is not your employer.

IT IS IMPORTANT TO NOTE, HOWEVER, THAT YOU MAY RECEIVE PAYMENTS OR BENEFITS THAT ARE SUBJECT TO TAX BUT THAT WILL NOT BE INCLUDED ON ANY OF THESE FORMS. For example, if you receive a taxable scholarship or fellowship, the scholarship or fellowship provider generally is not required to report the award to the IRS or to you on one of these forms, but you still have to pay tax on the award.

5. Other Taxes. Payments to you, or for your benefit, may also be subject to other federal, state, and local taxes. Often, the determination of federal income tax liability is the first step in determining whether, and how much of, your income is subject to these other taxes.