



## GREEK ORTHODOX ARCHDIOCESE OF AMERICA

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To the Reverend Clergy and Members of the Parish Councils of the Archdiocese:

In the ongoing effort to support and assist the Greek Orthodox clergy of America, it became evident that our priests needed greater guidance concerning compensation and the related federal tax issues. Many changes have occurred over the years pertaining to clergy tax matters and these changes have resulted in some confusion and divergent opinions among our clergy and parish councils. As a result, it was felt that these issues needed to be raised and more clearly defined. To that end, KPMG, one of the top five accounting firms in the country, was contracted to prepare and conduct a presentation at the Philadelphia Clergy-Laity Congress. The enclosed material, which was distributed to those in attendance at this presentation in Philadelphia, should help clarify many of these issues for our clergy.

Since there is such an overwhelming consensus among tax professionals on this issue, the Archdiocese is adopting the position that as of January 1, 2001, clergy serving in administrative or parish assignments are considered for federal income tax purposes to be "employees" (the Archdiocese is considered to be the "employer" even though the parish council issues checks to the clergyman, "pays" his salary, and issues the appropriate tax forms). The clergymen would receive a Form W-2, not a Form 1099, for the reporting of income received in conjunction with carrying out the duties of their ministry. This obviously does not apply to priests substituting on an occasional basis at a parish while, for example, their priest is on vacation, ill, or waiting to be assigned.

Please keep in mind the following:

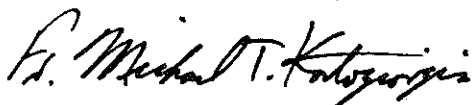
- **The withholding of FICA, Medicare or Self-Employment taxes is never permitted for ordained clergymen on income received in conjunction with carrying out the duties of their ministry.** In accordance with IRS regulations and the Social Security/Self-Employment regulations, all ordained clergy are considered "self-employed" for social security and medicare tax purposes and thus would file Schedule SE and pay at the self-employed tax rate of 15.3%.
- **All ordained clergy are not subject to the mandatory withholding of federal income taxes on income received in conjunction with carrying out the duties of their ministry, unless they so choose and request.** Such a request could also include sufficient withholding to cover anticipated self-employment tax liability. The only type of withholding permitted is for federal income taxes (as well as

state and city where applicable), but in all cases on a voluntary basis, never on a mandatory basis. Clergy choosing not to have the withholding of federal (and state and city where applicable) income taxes take place, are required to file and pay quarterly estimated income tax payments (due April 15, June 15, September 15 and January 15). The underpayment of quarterly estimated income taxes (or insufficient withholding) may result in severe penalties and interest charges being assessed and levied by the IRS.

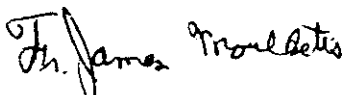
- **Housing Allowances (which *must* be designated in advance of payment) are separated from salary and listed in box 14 of Form W-2 and labeled as "Housing Allowance."** When a clergyman's tax return is prepared, if his actual housing related expenses fall below the designated amount, then the difference is added back to taxable income; if his actual expenses end up being greater than the designated Housing Allowance figure, then the clergyman *must* use the designated amount (a compelling reason for having the designated amount be higher than anticipated, since it must be done in advance and is essentially a paper transaction). In all cases, the final figure used in filing income tax returns is the lower of either: 1) the designated Housing Allowance, or 2) the actual housing related amount spent.
- **The revocation of exemption from self-employment tax has been extended to April 15, 2002.** If a clergyman is exempt from the self-employment tax because he has an approved Form 4361, he now has until April 15, 2002, to revoke that exemption. This deadline is extended beyond April 15, 2002, if he gets an extension to file his 2001 tax return. To revoke the exemption, he must file Form 2031, *Revocation of Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners*. The revocation will be effective for either 2000 or 2001 and all later years. He will be covered under the social security system and his earnings will be subject to self-employment tax during those years. Once he revokes the exemption, he can *never again* elect exemption from self-employment tax.

We trust that this and the enclosed materials will be helpful to you as you begin the new tax year. May this new year bring you many blessings, health, peace and growth.

Sincerely,



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Assistant Chancellor



Fr. James Moulketis  
Archdiocese Benefits  
Committee Chairman



John Barbagallo  
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