

Tax Reminders for January 2021

Semiweekly requirements

If your church or organization reported withheld taxes of more than \$50,000 during the most recent lookback period (for 2021, the lookback period is July 1, 2019, through June 30, 2020), then the withheld payroll taxes are deposited semiweekly. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

Note further that large employers having withheld taxes of \$100,000 or more at the end of any day must deposit the taxes by the next banking day. The deposit days are based on the timing of the employer's payroll. Withheld taxes include federal income taxes withheld from employee wages, the employee's share of Social Security and Medicare taxes (7.65 percent of wages), and the employer's share of Social Security and Medicare taxes (an additional 7.65 percent of employee wages).

Monthly requirements

If your church or organization reported withheld taxes of \$50,000 or less during the most recent lookback period (for 2021, the lookback period is July 1, 2019, through June 30, 2020), then withheld payroll taxes are deposited monthly. Monthly deposits are due by the 15th day of the following month.

Note, however, if withheld taxes are less than \$2,500 at the end of any calendar quarter (March 31, June 30, September 30, or December 31), the

church need not deposit the taxes. Instead, it can pay the total withheld taxes directly to the IRS with its quarterly Form 941. Withheld taxes include federal income taxes withheld from employee wages, the employee's share of Social Security and Medicare taxes, and the employer's share of Social Security and Medicare taxes.

January 1, 2021

Social Security and Medicare taxes

Employees and employers each pay Social Security and Medicare taxes equal to 7.65 percent of an employee's wages. The tax rate does not change in 2021. The 7.65 percent tax rate is comprised of two components: 1) a Medicare hospital insurance tax of 1.45 percent, and 2) an "old age, survivor and disability" (Social Security) tax of 6.2 percent.

There is no maximum amount of wages subject to the Medicare tax. The tax is imposed on all wages regardless of amount. For 2021, the maximum wages subject to Social Security taxes (the 6.2 percent amount) is \$142,800. Stated differently, employees who receive wages in excess of \$142,800 in 2021 pay the full 7.65 percent tax rate for wages up to \$142,800, and the Medicare tax rate of 1.45 percent on all earnings above \$142,800. Employers pay an identical amount. The Medicare tax rate for certain high-income taxpayers increases by an additional 0.9 percent.

Self-employment taxes

The self-employment tax rate (15.3 percent) does not change in 2021. The 15.3 percent tax rate consists of two components: (1) a Medicare

hospital insurance tax of 2.9 percent, and (2) an “old age, survivor and disability” (Social Security) tax of 12.4 percent.

There is no maximum amount of self-employment earnings subject to the Medicare tax. The tax is imposed on all net earnings regardless of amount. For 2021, the maximum earnings subject to the Social Security portion of self-employment taxes (the 12.4 percent amount) is \$142,800. Stated differently, persons who receive compensation in excess of \$142,800 in 2021 pay the combined 15.3 percent tax rate for net self-employment earnings up to \$142,800, and only the Medicare tax rate of 2.9 percent on earnings above \$142,800.

These rules directly impact ministers, who are considered self-employed for Social Security with respect to their ministerial services. Ministers should take these rules into account in computing their quarterly estimated tax payments. The Medicare tax rate for certain high-income taxpayers increases by an additional 0.9 percent.

Federal income taxes

Beginning on this date, churches having nonminister employees (or a minister who has elected voluntary withholding) should begin

withholding federal income taxes from employee wages. To know how much federal income tax to withhold from employees’ wages, employers should have a Form W-4 on file for each employee. Employees should file an updated Form W-4 for 2021, especially if they owed taxes or received a large refund when filing their previous tax return. Employees should use the [IRS Tax Withholding Estimator](#) to determine accurate withholding.

January 15, 2021

Ministers (who have not elected voluntary withholding) and self-employed workers must file their fourth quarterly estimated federal tax payment for 2020 by this date (a similar rule applies in many states to payments of estimated state taxes).

Employees of churches that filed a timely Form 8274 (waiving the church’s obligation to withhold and pay FICA taxes) are treated as self-employed for Social Security purposes, and accordingly are subject to the estimated tax deadlines with respect to their self-employment (Social Security) taxes unless they have entered into a voluntary withholding arrangement with their employing church or organization.

For complete information consult the **[2021 Church & Clergy Tax Guide](#)** by [Richard R. Hammar, JD, CPA](#). Visit **[ChurchLawAndTax.com](#)** for the expert insights you need to manage tax issues with confidence.

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