

Mastering the 2026 Tax Season

A webinar presented by:

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One Big Beautiful Bill Update

2025

Big, Beautiful Tax Legislation Changes for Individuals

Individuals may deduct up to \$25,000 of qualified tips

Note: Employers report qualifying tips in any acceptable manner for 2025. For 2026, they will be reported on Form W-2 in Box 12.

Individuals may deduct up to \$12,500 for qualified overtime.

Note: Employers report qualifying tips in any acceptable manner for 2025. For 2026, reported on Form W-2 in Box 12.

Seniors may receive an additional deduction up to \$6,000 each.

Individuals may deduct interest on qualifying new car purchases.

Note: Lenders are required to provide this information to the borrower in an acceptable manner for 2025. In the future they will be required to issue Form 1098-VLI

The child tax credit has been established at \$2,200 per child.

Potential deductions for personal taxes on Schedule A are increased from \$10,000 to \$40,000 for taxpayers with AGI of less than \$500,000.

2026

Big, Beautiful Tax Legislation Changes for Individuals

A floor returns for itemized deductions for taxpayers in the 37% tax bracket

Non-itemizers may deduct limited charitable contributions

For taxpayers who itemize – there will be a reduction in the contribution amount that may be claimed

Corporations may not claim a charitable contribution until they exceed 1% of their taxable income

Trump accounts for minors – more confusing than you can imagine!

Big, Beautiful Bill Legislation Affecting Employers

Reporting thresholds for Forms 1099-NEC and 1099-MISC increased to \$2,000 from the long standing \$600

HSA plans may contain telehealth services and include primary care arrangements

Dependent care plan maximum benefits increase from \$5,000 to \$7,500

ERC claims for the quarter ended 9/30/21 filed after January 31, 2024, and not processed as of the enactment date, will be denied. The statute on this quarter is also extended to 6 years.

Things not returning after the OBBBA

Miscellaneous
itemized
deductions

Moving
expenses

Higher limits
on mortgages
for interest
deductions

Lower child
credit
amounts

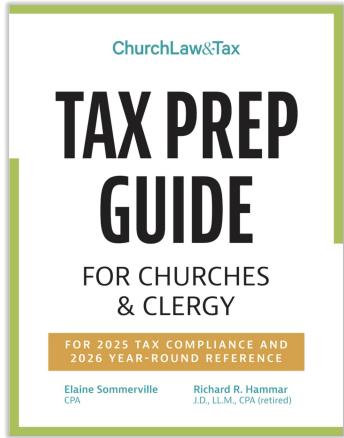
Church Considerations for 2026

It's the New Year – Immediate Concerns

Filing Requirements for February 2, 2026

- ❑ Form 941 and Forms W-2 – Have you:
 - ❑ Review for noncash benefits that need to be added
 - ❑ Review for cash benefits that need to be added – especially those gift cards and holiday bonuses
 - ❑ Prepare for mandatory electronic filing requirements
 - ❑ Issue statements of qualifying tips and/or overtime paid to employees
- ❑ Forms 1099 – Have you:
 - ❑ Review all vendor payments to determine those who received \$600 or more
 - ❑ Obtain reporting information from all applicable vendors
 - ❑ Prepare for mandatory electronic filing requirements
- ❑ Confirm 2026 payroll is correctly set up
 - ❑ Housing allowances have been established
 - ❑ Benefit elections are made
 - ❑ Payroll amounts are correct
 - ❑ Confirm tax deposit requirements

Related Resources



[2026 Tax Prep Guide](#)
For Churches and Clergy

How to Prepare W-2s for Church Employees, Including Ministers

A church reports taxable income and withheld income taxes for employees and ministers on the Form W-2.

Image: iSTOCK / Getty

Richard R. Hammar, Attorney, CPA, ABA

Last Reviewed: January 3, 2025

This article addresses how a church reports taxable income and withheld income taxes for employees and ministers on the Form W-2.

A church should furnish copies B, C, and 2 of the 2024 Form W-2 to each employee by January 31, 2025. File Copy A with the Social Security Administration by January 31, 2025. If filing paper copies, send all Copies A with Form W-3, Transmittal of Wage and Tax Statement.

Key update: If a church files 10 or more forms of any combination of W-2 or 1099, it must submit the forms electronically. Churches new to the electronic filing requirements may be able to utilize the Social Security Administration's Business Services Online option to electronically file the forms. There are also other independent providers available to provide for electronic filing at a reasonable price.

[Read more >](#)

[How To Prepare W-2s](#)

Designating a Housing Allowance for 2025

Take advantage of the housing allowance, which is the most important tax benefit available to ministers.

Richard R. Hammar, Attorney, CPA, ABA

The housing allowance is the most important tax benefit available to ministers.

But many ministers do not take full advantage of it because they (or their tax adviser or church board) are not familiar with the rules.

What can church leaders do to help? Consider the following guidance.

Designating a housing allowance for ministers in church-owned parsonages

Ministers who live in a church-provided parsonage or house can exclude from their income for federal income tax reporting purposes (1) the fair rental value of the parsonage, and (2) the portion of their compensation designated in writing by the church as a "parsonage allowance" (to the extent that it is used to pay for parsonage-related expenses such as utilities, repairs, and furnishings) and does not exceed the fair rental value of the home (unreimbursed, plus utilities).

Designating a housing allowance for ministers in church-rented parsonages

If your pastor lives in a church-provided parsonage or house, and incurs any out-of-pocket expenses using these (for example, for utilities or furnishings), then have the church designate a portion of the pastor's 2025 compensation as a "parsonage allowance." This should be done in December 2024 so that it will be effective for all of 2025. Parsonage allowances cannot be designated retroactively.

Example: Your youth pastor lives in a church-provided parsonage. He is expected to pay his utilities and provide his own groceries. His compensation for 2025 will be \$25,000. In its December 2024 meeting, the church board designates \$3,000 of this amount as a "parsonage allowance." The youth pastor has parsonage expenses of at least \$3,000 in 2025 (for utilities and furnishings). At the end of the year, the church treasurer issues the youth pastor a W-2, reporting only \$22,000 of church compensation. The parsonage allowance is not taxable (assuming that it was used for parsonage expenses) for income tax reporting purposes.

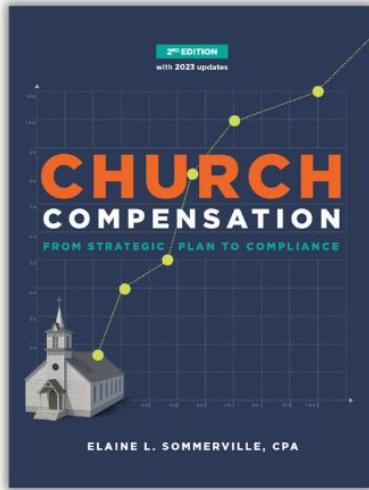
[Learn more >](#)

[Designating a Housing Allowance](#)

Other Beginning of the Year Tasks

- Prepare contribution receipts (not technically due by the end of January)
- Review worker classifications and see if there are any deserving of a separate analysis either from the perspective of the Department of Labor or the IRS
- Confirm all credentialed ministers are properly set up regarding FICA/Medicare taxes
- Review compensation packages including housing allowance approvals
- Update budgets and review the chart of accounts to see if it is still functional
- Review any restricted funds that may receive contributions to confirm they are still necessary
- Update mileage rates for reimbursement plans to .725 cents per mile
- Consider updating the fair rental value of the parsonage

Related Resources



[Church
Compensation –
Second Edition](#)

ChurchLaw&Tax

IRS Approves 72.5 Cents Per Mile for Business Use in 2026

The IRS approved a 2.5-cent bump in standard mileage rates for 2026. Meanwhile, the 14 cent rate for miles driven in service of charitable organizations remains the same.

Church Law Tax The Editors | Bio

[The Internal Revenue Service \(IRS\) has released the 2026 optional standard mileage rates. Use them to calculate the deductible costs of operating an automobile for business, charitable, medical or moving](#)

[IRS Approves 72.5 Cents
Per Mile for Business Use
in 2026](#)

The Right Way to Handle Wage Classifications

Properly applying the Fair Labor Standards Act to church employees.

Elaine L. Sommerville, CPA Bio
Last Updated November 18, 2024

Many church leaders propose that the Fair Labor Standards Act (FLSA) does not apply to churches. That may have once been true, but the church of today is not the church of yesterday. Advanced activities easily make the law applicable. This article provides a quick overview of how the FLSA applies to the church operations as a whole or on an individual level (based on an employee's duties).

Furthermore, every state maintains its own version of the FLSA, either tailoring additional rules on top of federal rules or applying similar rules where the federal rules don't apply. The law most favorable to an employee, whether at the state or federal level, always applies.

Key points: The FLSA establishes a minimum wage of \$7.25 an hour, maintains a 40-hour work week, and it also sets a minimum salary test for exempt positions to become eligible for overtime at \$458 per week (or \$23,664 per year). The Wage and Hour Division of the US Department of Labor (DOL) is responsible for enforcing this law.

Under the FLSA and DOL rules, there are three primary classifications for church employees:

- Employees meeting the "ministerial exception"
- Exempt employees
- Nonexempt employees

More information about each classification is outlined in this article.

[The ministerial exception](#)

[The Right Way To
Handle Wage
Classifications](#)

Retirement Planning

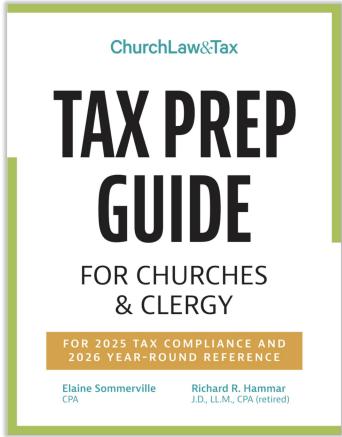
- ❑ **Law changes** may require plan document amendments
- ❑ **Acceptable hardship distributions** may need to be redefined
- ❑ **Provision for Roth accounts** may need to be added
- ❑ **Expansion of benefits** to long term part-time employees may be considered
- ❑ Consideration of provisions providing **plan matching contributions** based on student loan payments may be desired
- ❑ **Catch up provisions in the plan** may need to be updated for the increased amount for those 60 to 63 years old
- ❑ **Consider employee training sessions** to gain better retirement plan participation
- ❑ Review the plans for **funding retirement plans** for staff members, especially key staff members – do not leave for later years – a little now is better than nothing

Minister Considerations

Considerations for 2025

- ❑ Prepare for filing the 2025 1040 by April 15th
 - ❑ Review 2025 income reported and confirm accuracy – are you aware of any income that should be reported that is not reported on your Form W-2
 - ❑ Gather outside income, such as honorariums, and related expenses for reporting on Schedule C
 - ❑ Gather receipts for contributions, medical, and interest
 - ❑ Gather receipts and information for unreimbursed employee business expenses – not available for a federal tax deduction but may reduce the amount of self-employment tax due
 - ❑ Engage an experienced tax professional
- ❑ Consider eligibility for making IRA contributions for either spouse by April 15, 2026
 - ❑ Regular contributions – either deductible or nondeductible
 - ❑ Catch up contributions
 - ❑ Roth contributions
- ❑ Are you filing Form 4361 to opt out of self-employment tax?

Related Resources



[2026 Tax Prep Guide](#)
[For Churches and Clergy](#)

A screenshot of a blog post titled "How to Prepare W-2s for Church Employees, Including Ministers". The post features a small image of a W-2 form and the author's photo, Richard R. Hammar, CPA. The text discusses how a church reports taxable income and withheld income taxes for employees and ministers on the Form W-2. It includes a key update about electronic filing requirements and a note about Form 4381.

[How To Prepare W-2s](#)

A screenshot of a blog post titled "Six Questions to Ask When Exempting a Minister from Social Security". The post features a small image of a Social Security card and the author's photo, Elaine Sommerville, CPA. The text discusses the tax implications of exempting ministers from Social Security, including the "self-employment" tax. It includes a key takeaway about Form 4381 and a note about Form 4381.

[Six Questions to Ask When Exempting a Minister from Social Security](#)

Considerations for 2026

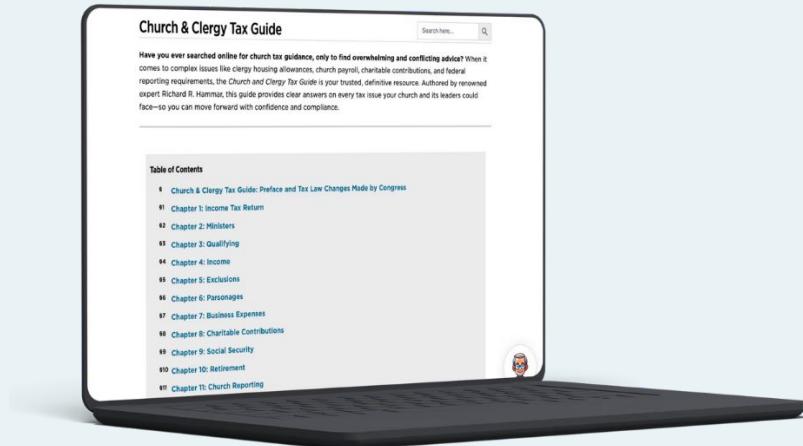
Don't leave for tomorrow what could be advantageous today!

- ❑ Should requests to withholding federal income tax be adjusted – better now than later
- ❑ If you make estimated tax payments – are you prepared for the 4/15/26 payment electronically
- ❑ Is your housing allowance adequate – you can still correct for the remainder of the year
- ❑ Retirement plan contributions
 - ❑ Review elective deferrals considering potential catch up amounts
 - ❑ Regular deferral \$24,500
 - ❑ Catch up deferral \$8,000 except for those 60 through 63 and their catch up is \$11,250
 - ❑ To Roth or not to Roth – that is a question
- ❑ Are there other benefit plans that may be available for 2026 through the church

More 2026 Considerations

- ❑ Social Security considerations
 - ❑ Will you turn 65 during 2026 and trigger Medicare considerations
 - ❑ Are there plans to initiate SS retirement payments – consider effect on income tax estimates & earnings limits
 - ❑ If you are or plan to be participating in receiving benefits or participating in Medicare, have you considered the effects on employer provided health benefits, especially HSA plans
- ❑ Is it time to reevaluate the fair rental value of your home for purposes of determining the housing allowance limitations – this should be done every 3 to 5 years
- ❑ Will required minimum distributions from retirement accounts be a factor
- ❑ If you are 70 or older, do you want to consider charitable giving through IRAs

Now Available: *Online Church & Clergy Tax Guide*



Tax Returns

Prepare and file your 2025 tax returns.



Social Security

Sort out social security and medicare.



Housing

Maximize your housing allowance benefits.



Expenses

Correctly process business expenses.



Withholdings

Properly calculate how much you can withhold.



Donations

Know how to handle charitable contributions.



Exclusions

Identify exclusions from gross income.



Tax Reporting

Comply with tax reporting requirements

Become an **Advantage Member** for AI-guided access to:

- ✓ Our online legal library
- ✓ Weekly newsletter updates
- ✓ Child abuse reporting laws
- ✓ Finance, law, tax & risk articles
- ✓ Exclusive webinars & cohorts
- ✓ 20% Off ALL store purchases
- ✓ Online Church & Clergy Tax Guide
- ✓ AI Chat Assistant & Search
- ... And so much more.

See Memberships



Ask Richie

 Disclaimer



👋 Hello! I'm Richie, your AI assistant. How
can I help you today?

According to the Church & Clergy Tax Guide, how do
I correctly report their federal income taxes?

Hold, please ... I'm looking through
ChurchLawAndTax.com ...

