

Employment Taxes

While the local church is “tax-exempt,” employees are certainly subject to multiple taxes with the federal, state, and local governments. As an employer, you must withhold taxes and forward them to the appropriate authorities, as they require.

- Social Security and Medicare (FICA) – All employees are required to participate in the provisions of the Social Security Act. Contributions will be withheld from the employee’s pay check and the church will match those contributions. These will be forwarded by the church to the Internal Revenue Service as prescribed by law.

Clergy are treated as “self-employed” for FICA purposes. This means that the clergy are responsible to pay this tax on their own, referred to as SECA (self-employment tax) for which the employer is NOT responsible to match contributions. Clergy pay this SECA tax through estimated payments to the IRS, nothing is withheld from their pay for this tax UNLESS clergy have formally entered into a voluntary withholding agreement with the church.

Understand that the IRS has the power to recover amounts not properly withheld from both the employer and the “responsible persons” that would be required to collect or insure collection. This could mean personal financial liability for members of your consistory/council when a decision has been made to not withhold and/or pay the required withholdings.

- Federal tax – Employees should have all filled out form W-4 when hired. This dictates to the payroll preparer how much to withhold from each person’s paycheck for federal income tax purposes. This money is also forwarded to the IRS along with the FICA tax mentioned above.

Clergy are also exempt from federal income tax withholding but must also pay this liability to the federal government with their SECA tax, as stated above, through estimated tax payments. Again, clergy can enter into a voluntary withholding agreement through the church.

- State and local taxes – PA and most localities have a percentage that is due on earned income. These taxes must also be withheld from staff paychecks and submitted to appropriate authorities per their rules.
- Unemployment tax – Churches are exempt under Federal law from having to participate in unemployment insurance programs so no unemployment tax should be withheld from pay checks. Therefore, unemployment income is not available to employees who may be laid off from their employment with you. However, your church may have elected to participate in the PA Unemployment Compensation law for exempt employers by filing a form UC-8. If they have, unemployment withholding and employer unemployment tax would be due quarterly to the Department of Labor & Industry.

If you have any suggestions or questions for an upcoming article, please contact Tammie Wisniewski at tammie@psec.org or call the conference office at 484-949-8774 X304