

Treatment of the “Clergy Health Insurance Allowance” on a pastor’s W-2 form

We urge each local church treasurer to consult a qualified tax advisor for specific information on payroll reporting issues. The Illinois Great Rivers Conference does not offer tax advice. What follows are only suggestions based on general principles.

For nearly all purposes, the \$17,500 “Clergy Health Insurance Allowance” paid to full-time pastors in 2021 should be treated as salary on the pastor’s 2021 W-2 form. The IGRC calls the dollars a “Clergy Health Insurance Allowance” to help churches understand the purpose of the dollars and the intent to cover healthcare costs for the clergy. However, the IRS considers the IGRC “Clergy Health Insurance Allowance” as salary.

In nearly all cases, the church treasurer will add the \$17,500 to the clergy salary normally reported in line 1 of the W-2. In this case, “salary” means compensation that the church pays the pastor for work, minus any clergy housing exclusion that was approved by the Charge Conference, minus any qualified salary-reduction items such as the pastor’s contribution to his/her pension, called “UMPIP. This is a Line 1 calculation example:

1. Start with the salary – (Line 11 in the 2021 Pastoral Compensation and Benefits Worksheet)
2. Subtract the Clergy Housing exclusion (Section B in the 2021 “green sheet”)
3. Subtract the Salary Reduction Items (Section A in the 2021 “green sheet”)
4. Add the \$17,500 Health Insurance Allowance (for full-time pastors)
5. The final calculation is the total for Line 1

Excluding the \$17,500 from reported income is not permitted by IRS rules. In nearly every case, it must be added to the reported income in line 1 of the W-2.

There are two exceptions:

- 1) If a church is the plan sponsor of an existing group health insurance plan for lay employees, it is permissible to enroll the pastor and exclude from income any personal contribution that the pastor pays into the health plan.
- 2) A Health Savings Account (HSA) is still legal. With a HSA, the pastor makes contributions into an HSA account which can be excluded from taxes and used for unreimbursed medical expenses such as deductibles and copays.

The health plan the pastor has chosen must be HSA eligible. Not all plans are HSA eligible. The pastor’s health insurance provider will know.

While the local church can deduct contributions from the pastor’s salary on behalf of the pastor, it is best for the pastor to make the payment arrangements due to introducing an unnecessary layer of administration through the church. The pastor can make the HSA payments directly. If he/she does, no reporting is required from the church. The bank will issue the pastor an IRS form 5498 that the pastor can use for his/her tax return.

If the church has sent contributions out of the pastor’s salary to the bank for the pastor’s HSA, those must be report on the pastor’s W-2 form in box 12 with a “W” code.

Please consult with a qualified tax advisor or payroll service for specific questions.