



Minister Compensation Is Your Love Offering Taxable?

Many churches commonly provide ministers and church staff “love offerings”. These offerings are usually taxable income to the recipient. If the recipient is an employee of the church, the amount must be added to their W-2 wages. If the recipient is not an employee of the church, the income must be reported on a Form 1099-MISC if it totals \$600 or more.

There are several exceptions in which a love offering will **not** be taxable. If the payment falls under a benevolence assistance program, it will not be taxable to the recipient. Employee achievement awards are not considered love offerings, and thus are not taxable as long as they meet specific requirements, including de minimis guidelines. If the gift is less than \$25 in value, it is considered de minimis and is not taxable. Each of these exceptions has specific rules that must be followed in order to avoid taxation.

If the love offering will benefit multiple employees of the church, and the church controls which employees will receive a portion, as well as the amounts each person will receive, the donor generally may take a tax deduction on their personal return. However, the love offering is still taxable to the recipients, and is subject to payroll tax withholding and reporting rules.

Love offerings made directly from a donor to a minister or church employee are generally not taxable to the recipient. These are considered personal gifts, and are **not** deductible as a charitable contribution by the donor. If the gift exceeds the annual gift limits (\$13,000 per donor in 2010), the donor must file a gift tax return. However, if the church takes up a collection during the service specifically to benefit the Pastor or church employees, the love offering is taxable income to the recipient and must be reported on Form W-2 or 1099-MISC.

Likewise, contributions earmarked by a donor for a specific minister or church employee are treated as a personal gift from the donor and are not taxable to the recipient. Because the gift is earmarked by the donor, this prevents the church from legally controlling the funds to carry out its own programs or mission. Again, the donor may **not** take a charitable donation deduction on their personal return.

If you have any questions regarding this tax issue, please contact one of our tax specialists listed below to arrange a consultation regarding these tax planning opportunities.

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