NBUSA
Nazarene Benefits

MEMO #10

Can Ministers Opt Out of Social Security?

NBUSA

SERVING THOSE WHO SERVE

The Internal Revenue Code provides a means for some ministers in some religious orders to exercise an option to terminate Social Security/Medicare coverage for ministerial earnings. This is a significant choice, which can drastically impact an individual's welfare, since Social Security/Medicare are important factors in achieving a measure of financial security in the event of disability and at retirement.

Such a decision must be based on "religious or conscientious opposition" to paying the tax, rather than personal financial preference. It is initiated by the filing of Form 4361, which must be done within two years of the filing of the first tax return in which an individual earned at least $400 in net earnings from self-employment, any of which came from ministerial services. This could include a person who is district-licensed or ordained.

Anyone Filing Form 4361 Must Certify By Signature That:

1. They are "Conscientiously opposed to, or because of religious principles… opposed to, the acceptance (for services I perform as a minister…) of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care, including the benefits of any insurance system established by the Social Security Act."
2. They have informed the ordaining, commissioning or licensing body of their church of their opposition to receiving such payments as mentioned above.
3. They have never filed Form 2031 to revoke a previous exemption from Social Security coverage on earnings as a minister…" (*see IRS Form 4361 for full details*).

Anyone filing Form 4361 will be subsequently contacted by the IRS to verify that they are aware of the grounds for the exemption and that they want the exemption on that basis. Once the exemption is approved, it cannot be revoked.

REMEMBER!

If an exemption is approved, only earnings from ministerial services are exempt.

CAUTION

All who request Social Security exemption must certify that they are conscientiously or religiously opposed to accepting the benefits of public insurance in the event of death, disability, old age, or retirement.

A "Catch" Often Overlooked

Key words in qualifying for exemption from Social Security coverage on ministerial earnings are "religious principles" and "conscientiously opposed to the acceptance of any public insurance." The tax regulations and court decisions are quite clear. Religious principles cannot be simply the personal conviction that perhaps Social Security will not be there when you retire, or that a better retirement can be secured through other retirement investments. The belief must be an integral part of your system of religious beliefs—your theology.

Further, this religious principle must be one that would prevent you from ever asking for the benefits from such a plan based on your church salary. No basis exists for an objection to paying the taxes, or to the level of the taxes to be paid. It would be like saying, "Even if I have to pay the taxes, I can never file for the benefits, since my theology will never allow me to accept them."

The Church of the Nazarene has one of the highest levels of participation in Social Security of any denomination of its size or larger. This has been true since the very earliest days of Social Security coverage for ministers. Most local Nazarene churches have a practice of reimbursing part, if not all, of the minister's Social Security/Medicare tax, as well as that of lay staff. Based on practice and polity there appears to be no basis for an exemption for Nazarene clergy from Social Security/Medicare self-employment taxes.

REMEMBER!

All ministers applying for Social Security exemption must first notify the denominational licensing body of their opposition to receiving benefits.

If You Made a Mistake in a Past Election for Exemption

Some ministers who previously made an election for exemption have become aware that they made their decision based on erroneous information. As a result of their expressed desire to reenter the Social Security system, Congress made provision in the Tax Reform Act of 1986 for a brief window of opportunity to be opened to those persons to opt back into Social Security without having to pay the back taxes (SECA). Of course, no Social Security/ Medicare coverage was retroactive for the years one was exempt from SECA tax. (Only earnings on which SECA tax was paid is included when one's benefit is calculated.) This specific window of opportunity closed on April 15, 1988.

Another window of opportunity to opt back into Social Security without having to pay the back taxes (SECA) was opened by the Work Incentives Improvement Act of 1999. This two-year window closed April 15, 2002.

The Nazarene Benefits USA office is not aware of any formal provision that now exists to allow ministers to revoke previous exemptions and opt back into Social Security. If you are a minister who has opted out of Social Security based on erroneous information and wish now to participate, you probably should secure the services of professional legal and tax advisors to analyze your unique situation and determine if there is any course of action available to you to achieve this goal.

REMEMBER!

Exemption is based on religious beliefs against receiving social insurance benefits. It is not based on objection to paying the taxes.

CAUTION

Nazarene polity and practice do not provide a basis for exemption from Social Security.

The information contained in this memo series is of a general nature reflecting USA Nazarene Church polity.

It is not offered as specific legal or tax advice. Each person, local church board, and district should evaluate their own unique situation in consultation with their local legal and tax advisors.

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#3: Tax and Reporting Procedures

#4: Strategies for Structuring Ministerial Compensation

#5: Minimizing Income Taxes for Church Employees

#6: Housing Allowance in Retirement

#7: Financially Caring for the Minister

#8: The Annual Church Audit

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