



Nonprofit Law and Consultation

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Newsletter - Winter 2010 Basic Taxation of Religious

As a new year dawns, many people turn to the issue of income tax. Although the religious order is exempt from taxation, members of a religious order are taxable like every other citizen. Religious may have taxable income coming from several sources. Its taxation depends on the source, amount and type of income.

Religious working within the church may remit their salary to their religious order. By doing this, they may qualify for the complete exemption of their compensation from taxation. However, it is important to meet specific criteria for the exemption of this income from taxation. Namely, the person must be a member of a religious order with the vow of poverty, they must be working for 'another entity of the supervising church,' and they must remit their income to the order.

Religious working for non-Catholic employers receive compensation which is generally taxable. However, because the income is given over to the order, religious are eligible for a charitable contribution tax deduction, for up to 50% of their adjusted gross income. There has been significant action of the IRS in examining these returns. It is important to have appropriate documentation on hand so that if the return is examined, there is sufficient documentation on hand to sustain the deduction.

Self-employed members receive compensation as spiritual directors, counselors, consultants, artists, etc. This compensation is subject to self-employment tax and income tax. A distinction must be made between those who are self-employed and taxable, and those (described above) who are working for the order and are not taxable. Those with self-employment income over \$400 must pay self-employment tax.

Patrimony Income: Income from interest and dividends from patrimony of the members is also subject to taxation. Often the level of interest and dividends is low enough that individual members are not required to pay taxes. New in 2008 is an elimination of the capital gains tax for low income taxpayers - this will be in effect 2008 through 2010 and may be of interest to members with long held or low basis stocks in their patrimony.

In the 2010 tax year, no tax is due for a single person under 65 if income is below \$9,350; or for a single person over 65 if income is below \$10,750.

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Those who are required to pay taxes generally itemize to take advantage of the charitable contribution deduction and other deductions.

For more information on this topic, February's webcast will discuss the preparation of the tax return for religious with taxable income, including an update on new applicable tax legislation. May's webcast will be on the Transfer of a Member to Another Institute.

Basic Taxation of Religious - 2010 Update

Tuesday, February 16, 2010

Transfer to Another Religious Institute

Tuesday, May 18, 2010

Civil Structures of Religious Institutes

Tuesday, August 17, 2010

Time: Tuesdays, 2:00 pm ET, 11:00 am PT

Register: www.ahereford.org/registration.html

Format: Live, On-Demand, CD-ROM

Cost: \$65

Recorded Webcasts: Not available for a webcast? You can register to view it On-Demand or on CD-ROM, go to www.ahereford.org/registration.html.

1. An **On-Demand** webcast is available for those who are unable to attend live. It is generally available within 48 hrs after the live webcast and may be view at your convenience over a several month period. The program can be downloaded or viewed on the web. (More environmentally friendly than the CD-ROM below)
2. In addition, webcasts are also offered on **CD-ROM**. This format is especially helpful for those without access to high speed internet. CD-ROMs are shipped a few weeks after the webcast.

Please let me know if I can be of assistance to you or your organization.

Sincerely,
Amy Hereford

*A webcast is a seminar delivered over the internet.