LOVE OFFERINGS & HONORARIUMS

Tax Treatment, IRS Reporting & Compliance for Churches

Distinguishing Gifts, Compensation & Reportable Income (2025 Updated)

TODAY'S AGENDA

- Definitions: Love Offerings vs. Honorariums vs. Gifts
- Tax Treatment: Which Income is Reportable?
- IRS Guidance: Publication 517 & Ministerial Income
- Love Offering Collections: Tax-Free vs. Taxable
- Honorarium Payments: When to Issue 1099-NEC
- Gift vs. Compensation: The IRS Distinction
- Reporting Requirements & Documentation
- Best Practices & Common Mistakes

Understanding the Terms: Definitions

Love Offering

- Voluntary gift from congregation
- No expectation of return service
- Expressed freely without obligation
- Example: "love offering" collection during special event

Honorarium

- Payment for services rendered
- Guest speaker/musician performance
- Expected compensation for work
- Example: $300 honorarium for guest preacher

LOVE OFFERINGS: ARE THEY TAXABLE INCOME?

- **General Rule:** Love offerings ARE taxable income to recipient (IRS treats as compensation for services)
- **Reasoning:** Even if "voluntary," love offering is given IN CONNECTION WITH ministerial services (preaching, leading worship)
- **Publication 517 Guidance:** IRS Publication 517 states love offerings are includable in gross income as ministerial compensation
- **Exception - Personal Gifts:** ONLY if offering is clearly personal gift (unrelated to ministry) = may be excludable (rare)
- **Example Taxable:** Love offering given to pastor after sermon = taxable income (received for ministerial services)
- **Example Non-Taxable:** Wedding gift given to pastor for personal life event (not church-related) = not taxable
- **Self-Employment Tax:** Love offerings are ALWAYS subject to self-employment tax (15.3%) for pastors

IRS PUBLICATION 517: MINISTERIAL INCOME RULES

- **What is Publication 517?:** IRS guidance specifically for clergy taxation (wages, housing allowance, self-employment tax)
- **Love Offering Treatment:** "Offerings received by clergy in connection with ministerial duties are includable in gross income"
- **No Distinction:** IRS doesn't distinguish between "gifts" and "offerings" - if received for ministry = taxable income
- **Exclusion Standard:** Only excludable if offering is PERSONAL GIFT unrelated to ministerial position (burden on clergy to prove)
- **Housing Allowance Exception:** Housing allowance portion CAN be excluded from income tax (not self-employment tax)
- **Reporting Requirement:** Love offerings should be reported as self-employment income on Schedule C (clergy business income)
- **Church Documentation:** Church should track love offerings & provide annual statement to clergy for tax reporting

LOVE OFFERING COLLECTIONS: HOW CHURCHES CONDUCT THEM

- **Typical Scenario:** Guest speaker invited; church takes "love offering" during/after service to benefit guest
- **Collection Method:** Special offering plate passed; members contribute voluntarily (cash, check, digital)
- **Amount Varies:** Uncontrolled amount (no set honorarium); depends on congregation size & generosity
- **Guest Compensation:** Love offering intended as full compensation (replaces formal honorarium negotiation)
- **Example:** Guest preacher speaks; church takes love offering collecting $800 for visiting pastor
- **Church Accounting:** Church tracks offering amount, provides receipt/statement to guest for tax purposes
- **Transparency Issue:** Churches should communicate that love offering is TAXABLE INCOME (not tax-free gift)

HONORARIUMS: TAXABLE COMPENSATION FOR SERVICES

- **Definition:** Honorarium = agreed-upon fee for services (guest speaking, music performance, ministerial work)
- **Tax Status:** 100% taxable as income (no exclusion available)
- **Self-Employment Tax:** Subject to 15.3% SE tax (ministerial income always subject to SE tax)
- **1099-NEC Reporting:** If $600+ annual total to same person, MUST issue Form 1099-NEC by Jan 31
- **Example:** Guest speaker receives $500 honorarium = $500 taxable income + ~$76 SE tax owed
- **W-9 Collection:** Church should collect Form W-9 (tax ID) BEFORE paying honorarium (avoids backup withholding 24%)
- **Clear Definition:** Honorarium = compensation for services (not a gift; not voluntary)

The Critical Distinction: Gift vs. Compensation

Gift (Tax-Free)

- Donative intent (no quid pro quo)
- Personal, not service-related
- Voluntary, no obligation
- Example: Wedding/birth gift
- NOT subject to SE tax

Compensation (Taxable)

- Received for services rendered
- Connected to ministry work
- Expected payment (quid pro quo)
- Example: Love offering after sermon
- SUBJECT to SE tax

HOW IRS DETERMINES GIFT VS. COMPENSATION

- **Donative Intent Test:** Was transfer motivated by generosity/affection (gift) or obligation for services (compensation)?
- **Expectation of Return Benefit:** Did giver expect clergy to provide service? = compensation
- **Context & Circumstances:** Was amount reasonable? Was service provided? Was gift contingent on services?
- **Characterization by Church/Recipient:** How did church/giver describe it? (Gift description = weak argument if connected to service)
- **Timing Clue:** Gift BEFORE service = more likely gift; gift AFTER service = often compensation
- **Burden of Proof:** Clergy must PROVE gift status (IRS presumes ministerial income = taxable)
- **Safe Harbor:** If truly personal/unrelated to ministry = better chance of gift classification

Examples: Personal Gifts vs. Ministerial Compensation

✅ Personal Gift (Tax-Free)

- $500 gift for pastor's birthday (personal, not ministry-related)
- Gift for wedding or baby (family event)
- Gift from family member (personal relationship)
- Christmas gift unrelated to services

❌ Ministerial Compensation (Taxable)

- Love offering collected after sermon
- Honorarium for guest speaking
- Fee for performing wedding
- Payment for ministry services

WHEN TO ISSUE 1099-NEC FOR HONORARIUMS

- **Threshold:** Issue Form 1099-NEC if payments total $600+ in calendar year (2025 threshold; increases to $2,000 in 2026)
- **Aggregation Rule:** SUM ALL honorariums to same person in calendar year (not per event)
- **Example:** Church pays guest speaker $300 for Easter + $400 for Christmas = $700 total = MUST issue 1099-NEC
- **Love Offering Amount:** If love offering totals $600+ to same guest (across multiple visits), must issue 1099-NEC
- **Due Date:** Copy to person by Jan 31; File IRS copy with Form 1096 by Feb 28 (or March 31 if e-filing)
- **Box on Form:** Report in Box 1 (Nonemployee Compensation)
- **W-9 Required:** Collect Form W-9 (tax ID) from recipient before paying honorarium

REAL EXAMPLE: LOVE OFFERING AGGREGATION (1099 THRESHOLD)

- **Scenario:** Guest pastor "Dr. Smith" speaks at church 3 times in calendar year
- **Event 1 (Easter):** Love offering = $350
- **Event 2 (Mid-year special):** Love offering = $200
- **Event 3 (Christmas):** Love offering = $250
- **Total for Year:** $350 + $200 + $250 = $800
- **RESULT:** Church MUST issue Form 1099-NEC to Dr. Smith for $800 by Jan 31
- **Common Mistake:** Churches pay under $600 per event and think no 1099 needed (WRONG - must aggregate annually)

CHURCH RESPONSIBILITIES FOR LOVE OFFERINGS & HONORARIUMS

- **Track All Payments:** Maintain detailed records of every love offering & honorarium (guest name, date, amount)
- **Aggregation Calculation:** Quarterly/annually sum all payments to same person across all events
- **W-9 Collection:** Request Form W-9 from each guest BEFORE first payment
- **Annual Statement:** Provide written statement to guest showing total love offerings/honorariums received (for their tax return)
- **1099-NEC Preparation:** If total $600+, issue Form 1099-NEC by Jan 31 (send to guest & IRS)
- **Record Retention:** File W-9s, payment records, 1099s for 4+ years (IRS audit defense)
- **Transparency:** Communicate to guests that love offerings are TAXABLE INCOME (not tax-free)

CAN LOVE OFFERINGS INCLUDE HOUSING ALLOWANCE EXCLUSION?

- **Answer:** Only if church DESIGNATES portion as housing allowance BEFORE love offering is collected
- **Requirement:** Church must formally designate (board resolution) specific love offering amount for housing
- **Example:** Church decides $100 of love offering will be designated as housing allowance (if conditions met)
- **Limitations:** Housing designation only excludes from INCOME TAX (not self-employment tax)
- **Self-Employment Tax:** Full love offering amount subject to 15.3% SE tax (housing allowance doesn't reduce SE tax)
- **Fair Rental Value Test:** Designated housing must pass three-prong test (actual costs, fair rental value, church designation)
- **Documentation Critical:** Church must document housing designation in meeting minutes BEFORE offering collected

HOW CLERGY REPORT LOVE OFFERINGS ON TAX RETURN

- **Reporting Form:** Love offerings reported as self-employment income on Schedule C (clergy business)
- **Line Item:** Include love offerings in "Gross income from clergy services" or similar income category
- **Self-Employment Tax (Schedule SE):** Calculate 15.3% SE tax on love offering income (clergy always subject to SE tax)
- **Housing Allowance Exclusion (if applicable):** If church designated portion as housing, exclude from income tax (Form 1040)
- **Documentation Needed:** Keep church statements showing love offering amounts received (support tax return)
- **1099-NEC Receipt:** If church issues 1099-NEC, amounts shown on 1099 must match clergy's tax return reporting
- **Failure to Report Risk:** IRS matches 1099-NEC data with tax returns; unreported income triggers audit

Common Myths & Misunderstandings

❌ MYTH

- Love offerings are tax-free gifts
- Under $600 = no 1099 needed
- Voluntary = not taxable
- Church gift = excludable

✅ TRUTH

- Love offerings are taxable compensation
- Aggregate annually; $600+ = must issue 1099
- If for services = taxable (voluntary doesn't matter)
- Ministry-related = taxable (not excludable)

Additional Common Mistakes

❌ WRONG

- No church record = no taxable income
- Cash gift = no reporting needed
- Housing allowance excludes all love offering
- Gift status automatically applies

✅ CORRECT

- Clergy must report all income (known or not)
- Cash is income; must be reported
- Housing allowance only excludes from income tax, not SE tax
- Burden on clergy to prove gift status

BEST PRACTICES FOR CHURCHES & CLERGY

- **Documentation:** Track all love offerings & honorariums in writing (date, guest name, amount, event)
- **Transparency:** Inform guests that love offerings are TAXABLE INCOME (not tax-free gifts)
- **Annual Statements:** Provide written year-end statement to guests showing total received (for tax return preparation)
- **Aggregate Tracking:** Quarterly/annually sum payments to identify $600+ threshold for 1099-NEC
- **W-9 Collection:** Request Form W-9 from all guests BEFORE first payment (avoid backup withholding)
- **Housing Designation:** If designating portion as housing allowance, document in board minutes BEFORE collection
- **IRS Compliance:** Issue 1099-NEC by Jan 31 for amounts $600+ (maintain copies 4+ years)

CHURCH COMPLIANCE CHECKLIST FOR LOVE OFFERINGS

- ☐ Designate love offering/honorarium payments in advance (who receives, how much)
- ☐ Collect Form W-9 from guest speaker/musician BEFORE first payment
- ☐ Track love offering amount (date, guest name, event, exact amount)
- ☐ Provide receipt/documentation to guest when payment made
- ☐ Aggregate annual payments to same person (check for $600+ threshold)
- ☐ Calculate portion designated as housing allowance (if applicable)
- ☐ Prepare 1099-NEC if total payments $600+ (due Jan 31)
- ☐ Provide year-end statement to guest showing taxable income received
- ☐ File Form 1096 transmittal with IRS by Feb 28 (or March 31 if e-filing)
- ☐ Retain all records (W-9, payments, 1099s) for 4+ years

CLERGY TAX REPORTING CHECKLIST

- ☐ Collect all love offering statements from churches (1099-NEC or church statements)
- ☐ Calculate total love offerings received during year
- ☐ Report total love offerings on Schedule C (clergy business income)
- ☐ Identify any portion designated by church as housing allowance
- ☐ Exclude designated housing allowance from income (Form 1040)
- ☐ Calculate 15.3% self-employment tax on full love offering (Schedule SE)
- ☐ Verify 1099-NEC amounts match your records & tax return
- ☐ Keep church statements & receipts (support if IRS questions love offering income)
- ☐ If living in parsonage, determine if church housing allowance applies
- ☐ Review publication 517 for clergy-specific rules

Case Study: Love Offering Tax Implications

Scenario: Guest pastor speaks at 3 churches during year; receives love offerings

- **Church A:** Easter sermon = $400 love offering
- **Church B:** Spring conference = $300 love offering
- **Church C:** Christmas event = $200 love offering
- **Total Income:** $900 in love offerings
- **Self-Employment Tax:** $900 x 15.3% = ~$137.70 SE tax owed (clergy always pays SE tax)
- **Income Tax (22% bracket):** $900 x 22% = $198 income tax (on $900 income)
- **1099-NEC Requirement:** Each church must determine if they're sending 1099 ($600+ threshold per church? or aggregate per guest across all churches?)
- **Tax Due:** ~$337.70 total ($137.70 SE + $198 income tax) - must be paid via estimated tax or tax return

KEY TAKEAWAYS: LOVE OFFERINGS & HONORARIUMS

- Love offerings are TAXABLE INCOME if received in connection with ministerial services
- Only excludable if gift is PERSONAL (unrelated to ministry) - burden on clergy to prove
- Honorariums are always taxable compensation for services rendered
- Aggregate annual payments per guest; $600+ = must issue 1099-NEC
- Churches MUST collect W-9 and track love offerings for compliance & record retention
- Clergy always pays 15.3% self-employment tax on love offerings (no exception)
- Housing allowance ONLY excludes from income tax, not self-employment tax
- Documentation & transparency critical for both churches and clergy tax compliance

Implementation Plan: 90-Day Compliance

Days 1-30

- Audit current love offering records
- Identify guests paid in current year
- Collect missing W-9 forms

Days 31-60

- Aggregate annual payments per guest
- Identify $600+ threshold meets
- Prepare 1099-NEC forms

Days 61-90

- Issue 1099-NEC by Jan 31
- File Form 1096 with IRS
- Implement ongoing tracking system

Thank You

Understand Offerings • Report Accurately • Comply Confidently

Church Clergy Tax Management & Compliance Series Complete

Next Topics: Financial Statements • Audit Services • IRS Representation