

Notice to Pastors Regarding Receipt of Taxable Benefits

The Indiana Baptist Convention (d.b.a., American Baptist Churches of Indiana and Kentucky ó ABC/IN-KY) has received a grant from Lilly Endowment to help us establish the Ministerial Excellence Fund (MEF). This program is intended to benefit pastors by helping to reduce or eliminate economic pressures that undermine their ability to lead congregations effectively. The MEF is supported by contributions from congregations and other funding sources as well as by the Lilly Endowment grant.

The MEF includes several features that provide financial assistance for pastors and their families for specific purposes. The program guidelines list the opportunities that may be available to you through the MEF.

Please note that payments made to you under this program, or payments that are made to another person or institution for your benefit (for example, payments applied to reduce or eliminate an outstanding educational loan from your seminary or other lender), may result in your realizing additional income that is subject to federal, state, or local taxation. You should consult with your own tax adviser to determine how program payments may affect your particular situation.

As a guide, you might consider these points:

1. What Income is Subject to Tax? The IRS generally taxes all of your "income" from any source, including compensation for services, fringe benefits, and the cancellation (or discharge) of any loan that you owe. Internal Revenue Code section 61(a)(1) and (12).
2. Federal Income Tax Withholding. In most cases, a church is not required to withhold federal income tax from compensation paid to, or for the benefit of, an ordained minister. Therefore, you may receive payments that are subject to federal income tax but with respect to which no tax has been withheld and remitted to the IRS. (Ministers may enter into voluntary withholding agreements with their churches to have taxes automatically withheld from their pay.) If federal income tax over a certain amount (basically, \$1,000) is not withheld from your income, you must pay the tax during the year on a quarterly "estimated tax" basis.
3. Social Security/Medicare Taxes. Compensation paid to a minister for services in the exercise of the ministry typically is not subject to the Federal Insurance Contributions Act ("FICA"), the statute under which most employees pay taxes to support Social Security and Medicare. Instead of FICA, however, most ministers are subject to tax under the Self-Employment Contributions Act ("SECA"), which normally requires direct payment on an "estimated tax" basis. (As with the federal income tax, ministers may enter into voluntary withholding agreements with their churches to cover all or part of their SECA obligation.)
4. IRS Reports. You may receive reports from us, your church, or other payers of income to you that will help in determining what federal taxes you owe. These forms include:
 - a. Form W-2. The basic wage and tax statement from an employer.

- b. Form W-4. Employee's withholding allowance certificate (the form to establish a voluntary withholding arrangement).
- c. Form W-9. Request for taxpayer identification number and certification (the form required by a payer who is not your employer so that the payer will not be required to withhold federal income tax from payments to you).
- d. Form 1099-C. The form reporting income realized by you from the cancellation of a debt that you owed.
- e. Form 1099-MISC. A general income statement from a payer who is not your employer.

IT IS IMPORTANT TO NOTE, HOWEVER, THAT YOU MAY RECEIVE PAYMENTS OR BENEFITS THAT ARE SUBJECT TO TAX BUT THAT WILL NOT BE INCLUDED ON ANY OF THESE FORMS. For example, if you receive a taxable scholarship or fellowship, the scholarship or fellowship provider generally is not required to report the award to the IRS or to you on one of these forms, but you still have to pay tax on the award.

5. Other Taxes. Payments to you, or for your benefit, may also be subject to other federal, state, and local taxes. Often, the determination of federal income tax liability is the first step in determining whether, and how much of, your income is subject to these other taxes.

Additional Help and Special Notice under IRS Circular 230. In addition to guidance provided in this notice, you and your tax adviser can look for guidance from the IRS on its website, www.irs.gov/individuals/index.html, or by telephone at 1-800-829-1040. Your tax adviser also may call Lilly Endowment's outside legal counsel, Baker & Daniels (Ben Blanton 317-237-1361), to discuss general issues relating to the program. However, this notice and any other information that you receive from us, Lilly Endowment, or Baker & Daniels will not constitute formal written opinions (as described in the IRS Treasury Regulations) and are not intended, and cannot be used, to avoid your tax obligations or penalties under the Internal Revenue Code.