Battershell Nichols & Blum Welcomes You

Reporting Missionary Compensation to the IRS

With Rick Battershell, CPA

BNB BATTERSHELL NICHOLS & BLUM
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Remote Accounting Services

- We provide bookkeeping services to churches and Christian nonprofits, including:
  - Produce a monthly financial report for leadership
  - Process contributions and bills
  - Record all transactions in the general ledger
  - Reconcile bank accounts, credit cards, and close the books each month
  - Process payroll and file all quarterly and annual payroll forms
  - Provide budget and cash flow projection oversight
  - Assist with internal controls

Remote Accounting Services

Why do we provide this service?

- With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping

Top reasons our clients use our remote accounting services:

- Managing finances distracts the organization from its mission
- Leadership and members have increased confidence in their finances
- Tax and accounting regulations are complex and changing faster than ever
- They want a trusted advisor to provide CPA oversight

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Tax Deductions

1. What special tax deductions can missionaries take? (continued)

- Temporary assignment (<1 year): May deduct travel, meals, lodging while away from home (Rev. Rul. 93-86)
- Foreign residence: If living abroad permanently, may exclude up to $130,000 of income (2025 FEIE, indexed annually)
- 330-day rule: Even without permanent residence, exclusion applies if outside U.S. 330 of 365 days.

  - **Housing deduction:** Additional deduction allowed if housing costs **exceed 16% of FEIE (up to 30%).**

Tax Deductions, continued

1. What special tax deductions can missionaries take? (continued)

Unreimbursed business expenses are not deductible on Schedule A for employees (since 2018). They may be deducted on Schedule C if the missionary is an independent contractor. Examples include:

- Supplies (stationery, postage, etc.) ministry travel (airline tickets, meals, lodging)
- Ministry related transportation (includes personal vehicle)
- Office in the home (exclusive use) telephone, fax, and e-mail charges
- Educational expenses relating to missionary duties, professional services, books, and periodicals
- Ministry licenses, dues, and other fees

Time reimbursements to match the year of the expense, otherwise, they may be taxable. Reimbursements received in the same year as related expenses are not reported on your tax return.

2. Which ministry expenses are deductible or reimbursable tax-free under an accountable plan?

- Missionary passport and visa
- Missionary education to further ministry needs
- Travel and transporting missionary or goods on temporary ministry business assignments (expecting to last less than one year)
- Business use of personal assets

Beginning in 2018, moving expenses are no longer deductible for long-term or indefinite assignments. They are deductible for short-term, less than 1 year, assignments.

3. What types of expenses, if reimbursed, are considered “taxable compensation” to the missionary?

- Dependent passport and visa
- Clothing or household furnishings
- Education of children
- Travel and transportation of parents or children, except for qualified moving expenses reimbursed
- Personal use of mission organization owned assets (e.g. vehicles)
- Transfer of asset (below value) by missionary organization, for missionary, as personal asset
- Vacation travel from foreign residence
- Domestic help including maids, cooks, gardeners, etc.

4. Are the travel expenses for a spouse or dependents considered taxable?

- The travel of a spouse or a dependent for a bona fide business purpose may qualify as a nontaxable reimbursement of expenses.

- This requires that the employee document the spouse's or dependent's function on the trip to be necessary in a way that would result in desired business ministry benefits to the organization.

- The spouse's role is easier to document and establish a bona fide business purpose than dependents because the spouse is often considered a missionary as well.

- The incremental costs for dependents is not deductible, or if paid by the organization, is taxable.

5. How does the missionary deduct automobile expenses for a missionary owned automobile?

- Actual costs - Requires allocation between business and personal use by tracking miles or kilometers

- Cents per mile method may not be available for ministry business in foreign country miles since those rates are based on costs in the USA.

6. Can missionaries deduct mission-related expenses like food and lodging?

If considered ‘temporarily away from home’ by the IRS, a missionary can deduct their own expenses - but generally not their family’s.

The IRS requirements :

a) **Indefinite** - if the stay is considered “indefinite”, there is no business deduction for food and lodging travel expenses.

b) **Temporary** - if the stay is “temporary” (not expected to exceed 1 year), then a deduction (or nontaxable reimbursement) is allowable for their travel expenses while away from their home.

6. Can missionaries deduct mission-related expenses like food and lodging? (Continued)

The IRS position in Rev Rule 93-86 is summarized as follows:

If employment away from home in a single location is realistically expected to last for:

a) 1 year or less (and does in fact last less than one year), the employment is temporary in the absence of facts and circumstances indicating otherwise.

b) If employment is expected to last over 1 year—or has no set end—it's considered indefinite, even if it doesn't actually exceed 1 year.

c) Employment expected to last 1 year or less is temporary—until it's realistically expected to exceed 1 year, unless other facts indicate otherwise.

7. If a visa requires leaving the country after 12 months for at least one week (after which the missionary can return), are travel costs deductible for a Schedule C independent contractor—even if the missionary qualifies as ‘indefinitely away from home’?

- An argument might be made to take a deduction for the missionary’s travel costs since these costs are being incurred to allow the missionary to continue working in that country. However, if this is a return trip to the USA or one for personal purposes, a deduction might not be available.

8. What records must missionaries keep to deduct ministry travel expenses while overseas?

- Keep a diary or other record of day/week ministry activity while traveling.
- Keep donor communications detailing ministry activities.
- Required record details vary by expense:
  - Amount for travel, lodging, meals, and incidental items;
  - The dates traveling and the number of days spent on business activities;
  - The travel destination, described by city name or other designation; and
  - The business purpose for the travel or the nature of the business benefit gained or expected as a result of the trip, unless the business purpose is obvious from the circumstances.

9. How can I document the cost of meals AND incidental ministry expenses for IRS purposes?

- While temporarily away from home, rather than tracking the cost of each meal, the missionary can use the standard per diem to document the cost of meals and incidentals.

- For the per diem amount for meals and incidental expenses for travel outside of the USA, see the US Department of State per diem rates at: https://aoprals.state.gov/web920/per_diem.asp

- For a breakdown of only the incidental rate – see the US State Dept chart at: https://aoprals.state.gov/content.asp?content_id=114&menu_id=81

10. Which expenses count as ‘incidental expenses’ under the IRS per diem?

This includes:

- Fees and tips given to porters, baggage carriers, hotel staff, and staff on ships.

This term does **not** include:

- Laundry, cleaning and pressing of clothing,
- Costs of telegrams, internet or telephone calls,
- Transportation between places of lodging or business locations.

Tax Returns & Estimated taxes

11. Are missionaries required to file an income tax return or pay estimated tax payments?

- Even if a missionary owes no income tax, we recommend filing to start the statute of limitations, limiting IRS audit risk.
- They likely owe 15.3% self-employment tax if an independent contractor or minister.
  - Form 2555 can exclude up to $130,000 of income for income tax purposes (in 2025)—but this does not reduce self-employment tax.

Tax Returns & Estimated taxes, continued

11. Are missionaries required to file an income tax return or pay estimated tax payments? (continued)

B. To avoid penalties, they must pay estimated income and self-employment taxes quarterly using Form 1040-ES (April 15, June 15, Sept 15, Jan 15). Penalties can be avoided by basing payments on either method:

1) The prior year total taxes, or

2) At least 90% of the tax computed on what was actually earned during the quarter.

Quarterly estimated tax payments can be mailed in by a friend, or they can be made online.

For more information about paying online, see https://www.irs.gov/payments

12. When is the tax and the tax return due?

Missionaries living abroad on April 15 automatically have until June 15 to file. They may extend to October 15, but unpaid taxes accrue interest and penalties. File returns or extensions electronically or by certified mail.

13. If the missionary is paid by a foreign organization, is the missionary required to pay self-employment tax or social security tax on their personal tax return?

If a missionary is treated as an employee of a foreign organization, their requirement to pay self-employment or Social Security tax depends on whether they qualify as a minister of the gospel for IRS purposes, as well as applicable tax treaties and specific circumstances.

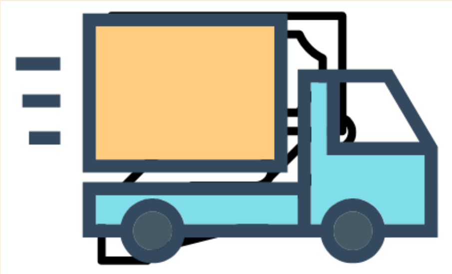
Other tax issues

14. Can medical insurance or costs be paid for by the church tax-free?

- Churches can generally provide medical insurance—and in some cases, medical expenses—tax-free to **employees**.
- If a missionary is treated as an **independent contractor**, these payments are taxable and reported on Form 1099-NEC.
- Whether employee or contractor status is more beneficial for federal tax purposes depends on the missionary's anticipated deductions.

15. If the foreign assignment is not considered “temporary” for IRS purposes, what travel expenses are deductible?

- Beginning in 2018, the costs of moving to the foreign location are no longer deductible as a “moving expense”.
- You may be able to claim travel expenses for business purposes once you are residing in the foreign location.



16. What other tax considerations might we have if someone lives in our home and pays the mortgage and expenses while we are away?

- If a nonrelative stays in your home and pays rent and/or expenses, it is taxable as rental income and should be reported on Schedule E of Form 1040.
- You can deduct mortgage interest, real estate taxes, and depreciation.
- Different rules apply if their payments are below fair rental value.

17. Should a missionary set up an IRA or other retirement account while overseas?

- Whether contributing to a retirement plan is beneficial depends on your total income and tax status.
- If you're not subject to income tax, a regular IRA may offer no tax benefit, but a Roth IRA or Roth 403(b) could.
- Other plan contributions may affect self-employment taxes depending on the plan and whether payments are made directly to the missionary or into the account.

18. What home address should be used on the missionary's federal tax return?

I suggest the address of a relative, close friend or supporter in the USA. This is where any IRS notices relating to any tax returns will be mailed.

- California may send you a notice to file a California State tax return if the address on your Form 1040 is in California.

19. How does the missionary notify the IRS of a change of address?

- Use Form 8822 to notify the IRS of a new address unless it was reported on your latest return. This ensures prior-year notices reach someone who can inform the missionary or a designated representative.
- Notices should not go unanswered.
- The missionary and spouse may grant a CPA, attorney, or trusted person authority using Form 2848 to handle IRS matters.

20. Can a missionary claim the Earned Income and Child Care Tax Credits?

- For the Earned Income Tax Credit the missionary must live in the United States for over half of the year and not claim the Foreign Earned Income Exclusion.
- The Child Care Tax Credit is limited to 15% of the taxpayers Earned Income computed after the Foreign Earned Income Exclusion.

21. How should a missionary handle funds sent to him/her which are to be used directly for mission projects, not for his/her personal living expenses?

- I recommend having a separate ministry or church account for those funds so it is clear that these funds are restricted for ministry purposes, then don't comingle with your personal funds. This will help if you are ever audited by the IRS.

22. Are you required to pay taxes to foreign country you are operating and living in?

You may be required, and should check the rules of the country. Try to find a tax expert in that foreign country.

Organizational reporting for missionary support

23. Are reimbursements for travel and other business expenses for short-term mission volunteers considered income reportable on Form 1099-NEC?

a) If a volunteer travels 'away from home' for one year or less, qualifying business expenses reimbursed under an accountable plan are nontaxable and not reportable on Form 1099-NEC.

b) If a volunteer travels for more than one year or indefinitely, travel reimbursements (including meals and lodging) are taxable and reportable on Form 1099-NEC. Other qualified business expenses, like ministry materials or seminars, can be reimbursed under an accountable plan and remain nontaxable.

Additional resources

1. Internal Revenue Service

www.irs.gov

Publication 535 – Business Expenses
Publication 463 – Travel, Entertainment, Gift, and Car Expenses
Publication 517 - Clergy Taxes

2. US State Dept

Per diem amount for meals and incidental expenses for travel outside of the USA

https://aoprals.state.gov/web920/per_diem.asp

https://aoprals.state.gov/content.asp?content_id=114&menu_id=81

3. Church & Clergy Tax Guide

www.churchlawtoday.com

4. Ministry and Pastor Tax Training Videos – Search website

www.BNB.cpa

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Thank you for joining us!

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