

**TAXATION OF CLERGY**

**Presented for:  
North Wisconsin District**

**LCMS**

**Presented by  
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## TAXATION OF CLERGY

### I. Introduction

The taxation of members of the clergy has long been a controversial issue. Four provisions in the IRS Code treat clergy differently from other occupations. The provisions which will be examined throughout this text are:

- A. The exclusion of housing allowance from taxable income, [§107]
- B. The possibility of exemption from FICA/SECA taxes, [§1402]
- C. The treatment of ministers as employees for certain purposes yet self-employed for Social Security purposes, [§1402 & §3121] and
- D. The exemption of ministerial wages from income tax withholding. [§3401]

### II. Employment Status

- A. The proper treatment of income and expenses requires a determination of employment status.
  - 1. Employees report their income on Form 1040, line 7, as wages and their expenses on Form 2106, which is carried to Schedule A.
  - 2. Independent Contractors report their income and expenses on Schedule C. The net is carried to Form 1040.
- B. The first consideration is whether the individual is in fact a minister. The definition of a minister depends on the particular facts and circumstances of each specific religion.
  - 1. An individual is required to *be* a duly ordained, commissioned, or licensed minister of a church. [Regulation §1.1402(c)-5]
  - 2. There are specific services which are considered the duties of a minister such as the performance of sacerdotal functions, the conduct of religious worship, the administration and maintenance of religious organizations and their integral agencies, and the performance of teaching and administrative duties at theological seminaries. [Regulation § 1.107-1(a)]

3. The main concern of the IRS in defining the role of a minister is to prevent self-appointed ministers from taking advantage of tax breaks.

C. The second issue is the employee v. independent contractor test.

1. There are 20 tests commonly used by the IRS to determine if a worker is an employee or an independent contractor. These are the same 20 tests used in any employee v. independent contractor determination.
2. The key to these tests is the control test. It is not necessary that the church has total control, nor is it necessary that the minister has total control. It is important to determine if the church has the right to control enough of the various test areas which is used to find the proper status of the minister.
3. The key to these tests is the control test. It is not necessary that the church has total control, nor is it necessary that the minister has total control. It is important to determine if the church has the right to control enough of the various test areas that are used to find the proper status of the minister.
4. In a professional occupation, actually controlling the worker is less important than the right to control the worker. Normally a professional does not need as much control in their work compared to a nonprofessional. The role of a minister normally does not require a great deal of actual control. The right to control may be shown by the church's supervision of the minister.
5. Most individual churches let their ministers provide their ministerial duties in any manner of their own choosing. Every minister preaches in a way that has differences from other ministers. However, most churches have the right to control how the minister performs his work. Following are a few items which demonstrate this control:
  - a) The minister is required to preach the church's basic teachings. For example, a Baptist minister who starts preaching the Jewish theology would probably have his position as a Baptist minister at that church terminated.
  - b) The minister is required to preach during specific times, although some can deviate to some degree. For example, a minister who decides that 8 am and 11 am on Sunday

**Case Summary:** Michael Weber is a United Methodist (UM) minister. His church treated him as an independent contractor; however, the IRS felt he should have been treated as an employee.

The Tax Court took over 1 1/2 years to rule that Mr. Weber was an employee. This decision was upheld by the Court of Appeals, 4th Circuit, who pondered the matter for less than one month. The Court made special mention of a few items including:

- 1) Every UM minister must agree to abide by and practice the precepts covered in the Book of Discipline of the United Methodist Church.
- 2) The Discipline states a minister must preach, read, and teach; instruct parents and sponsors prior to a baptism; encourage the distribution and use of Methodist literature in the local church, visit the sick, aged, and others in need; perform marriage ceremonies in accordance with the laws of the State and the UM Church, counsel those experiencing matrimonial difficulties, console bereaved families and conduct appropriate funeral and memorial services; lead a congregation to accept the racial and ethnic inclusiveness of the UM Church.
- 3) The Discipline states that a "local pastor shall be under the supervision of a district superintendent and a counseling elder who shall supervise the local pastor's work in the ministerial course of study and give counsel on matters of pastoral responsibility."
- 4) The Discipline also requires the pastors to attend the Annual Conference, retire at a mandatory retirement age of 70, and formally request any leave of absence.
- 5) UM ministers are entitled to many fringe benefits including maternity or paternity leave, disability leave, life insurance plan, a death benefit plan, a retirement plan, vacation pay, and health insurance.
- 6) UM ministers were provided the church building and office in which he gives sermons and performed some of the duties. The churches purchased materials, vestments, and similar items for the ministers. [*Weber, CA-4, 95-2 USIC ¶50,409*]

are not good times to have services and chooses his own to change the services to Tuesday nights at midnight and Fridays at 3 am will probably have to find a new position elsewhere.

- c) The minister is required to preach at the church's building. For example, a minister who decides to move the church services to the zoo or another church's building could run into some difficulty if it is done on a regular basis without some religious purpose.
  - d) A church that has a minister leave normally will contact the higher levels in the church, such as the District office, to help find a new minister. Most churches do not run advertisements in the newspaper for a new minister, but work through this higher level.
  - e) The church normally pays the minister a salary and/or provides a parsonage for him to live in.
6. The local church may not be able to terminate a minister's

employment. Some churches require a higher level be involved in the decision. Although the local church may not be able to terminate the employment, it does have the control through its higher levels.

- D. A traveling evangelist is an example of a minister who could be an independent contractor. Many evangelists travel from city to city. Their compensation is from the collection plate. They commonly preach in their own style and with their own message. They are not considered to be tied into one specific religion.

### **III. Independent Contractors**

- A. Ministers who are independent contractors will file Schedule C to report their income and expenses. The net income is carried to Form 1040.
- B. These ministers will also file Schedule SE to report their self-employment income.

### **IV. Employees**

- A. Most ministers are employees. As such, they fall into the distinction of being dual status taxpayers. They are employees for purposes of calculating income tax. They are self-employed for purposes of calculating their FICA/SECA tax. Since both taxes are shown on the same Form 1040, it leads to some confusion.
- B. Ministers who are employees should receive a W-2 from the church. The W-2 should include the wages paid to the minister in Box 1. This income should be reported on Form 1040, line 7 as wages. Boxes 3 and 5, Social Security wages and Medicare wages, should be left blank because a minister who is an employee is still considered a self-employed individual for FICA/SECA tax purposes.
- C. A minister who is an employee should report his income on Form 1040, line 7 as wages even if he receives a 1099 or no statement at all. His status as an employee requires the reporting of his income as wages. A church that gives an employee a 1099 or no statement is subject to the same penalties as any other employer who does not give its employees the proper statement.
- D. If both the minister and the church agree, the church can withhold federal and/or state income tax. This is not a requirement, but an

option.

- E. The church cannot under any circumstances withhold FICA taxes from the minister's pay, although the minister can choose to increase his federal income tax withholding to cover the self-employment tax he will incur.
- F. Work related expenses paid by the minister are reportable on Form 2106 and claimed as a miscellaneous 2% itemized deduction. If the minister is receiving a housing allowance, adjustments may have to be made to the expenses before they are reported on Form 2106. This will be discussed later.

## **V. Compensation**

- A. The normal compensation a minister receives is a regular paycheck similar to other employees, other than the withholding mentioned above.
- B. Ministers may also receive other monies over the year, which may or may not be compensation.
  - 1. Housing allowance. This is normally considered compensation, but is also normally tax-free for income tax purposes. This will be discussed as the next major topic.
  - 2. Utility allowance. This is treated in the same manner as a housing allowance.
  - 3. Various allowances. These are for common business expenses such as an auto allowance and expense allowance and may or may not be compensation. If these amounts are paid to the minister under an accountable plan, they will not be income. If they are not paid under an accountable plan, they should be considered additional wages.
  - 4. Love gifts. These are gifts made by the church to the minister to show their love for him and his services. Since the minister's employer pays them, they are considered additional compensation.
  - 5. FICA adjustment. This is an additional amount paid to a minister to help cover the self-employment tax he will have to pay on these normal earnings. This is usually roughly equal to the amount the church would have had to pay if the minister had been a FICA employee (7.65%). This is considered additional compensation to the minister.

6. Cash gifts from the church. Any gifts given for holidays, anniversaries, or any other reason will be considered compensation if they are given through the church or solicited by the congregation as a whole. [*Goodwi~ 94-2 USTC ¶50,597*]

7. Gifts from individual members of the congregation are considered normal nontaxable gifts if they are given outside the congregation not solicited by the congregation as a whole. An example of this is a Christmas gift made to the minister by an individual.

8. Small or nominal noncash gifts. Gifts for special occasions are excluded from the income of the minister if they are noncash gifts of small monetary value. This is the same for other employer/employee gifts. [Revenue Ruling 59-58]

9. Honorariums. Amounts received for speaking, officiating at religious ceremonies, counseling, and writing are examples of honorariums. These can be reported on Schedule C if the minister is allowed to keep the monies and if they are received outside of the Minister's regular salary and they are paid by others outside of the church. (Some churches require the ministers to turn these over to the church.)

## **VI. Housing Allowance**

- A. A housing allowance is additional pay, which is provided to a minister in order for him to pay for costs related to a place to live. This is also referred to as a parsonage allowance. Some ministers also receive a utility allowance. This is treated the same as a housing allowance.
- B. A housing allowance must be designated in **advance** of its payment. The employing body (the church) must make this designation. It can appear in the minister's contract, the organization's minutes, the budget, or any other official document.
- C. There is no requirement to report the amount of housing allowance paid to a minister. Some churches report it in Box 13 of Form W-2. Other churches report it on a separate statement given to the minister. It should not be reported on a Form 1099.
- D. The amount of a housing allowance which is nontaxable is the smaller of:

1. The amount actually used to provide a "home",
  2. The amount officially designated as a housing allowance, or
  3. The fair rental value of the home with utilities and furniture furnished.
- E. There is not a specific dollar amount or percentage limitations on the amount that can be designated as housing allowance. Any amount received which exceeds the nontaxable amount as computed above is taxable. This excess housing allowance should be reported as wages on the minister's Form 1040. *[Regulation §1.107(b)]*
- F. The definition of "home" is a dwelling place (including furnishings) and the appurtenances such as a garage. This includes a home that is purchased or one that is rented.
- G. Qualifying expenses include expenses directly related to providing a home. They include, but are not limited to:
1. Rent or principal payments on a home, including the down payment.
  2. Mortgage interest on the purchase of a home.
  3. Real estate taxes.
  4. Insurance on the home and its contents.
  5. Remodeling expenses.
  6. Repairs and maintenance such as painting, plumbing, electrical services, light bulbs, brooms, and cleaning supplies.
  7. Utilities such as heat, electric, water, sewer, garbage pickup, cable TV, and nonbusiness telephone.
  8. Home furnishings such as furniture, draperies, curtains, rugs, knickknacks, decorations, and linens.
  9. Lawn care items such as lawn mowers, fertilizers, and grass seed.

- H. Items which do not qualify include:
1. Mortgage interest on refinancing of the property to the extent the refinancing is for more than the principal balance immediately before the refinancing.
  2. Interest on home equity loans. [*RE. Rasmussen, TC Memo 1994-311*]
  3. Food.
  4. Servants.
- I. The Internal Revenue Code disallows deductions related to tax-exempt income. Although some or all of a housing allowance is not taxable for income tax purposes, this section still permits the deduction of the Minister's real estate taxes and qualified home mortgage interest in their proper sections of Schedule A.  
[*§265(a)(6)*]

Example: Minister George and his family own their own home. The church provides a housing allowance of \$12,000 for the year. The mortgage payments total \$9,600 for the year of which \$8,000 is interest. The property taxes for the year are \$1,500. Both the \$9,000 and the \$1,500 are considered qualified housing expenses, thereby reducing the amount of housing allowance which will be taxed. At the same time Minister George's Schedule A will show \$8,000 mortgage interest expense and \$1,500 real estate taxes as itemized deductions.

## VII. Expenses

- A. Ministers are able to deduct business related expenses in the same manner as other taxpayers.
1. A minister who is self-employed will deduct the business expenses on Schedule C.
  2. The minister who is an employee will deduct the business expenses on Form 2106 carried to Schedule A.
  3. A minister who is an employee and also performs some self-employment ministerial services should allocate his expenses between Form 2106 and Schedule C in a reasonable manner.

B. If a reimbursement is available, and the minister chooses not to request it, he is still considered to have received the reimbursement, therefore the expense is nondeductible.

C. Vehicle expenses are common for ministers. Most ministers are involved in visitation of congregational members and others in the community. This normally involves driving their own vehicles or taking public transportation.

1. Expenses for business use of a vehicle can be calculated in either of the normal ways: Standard mileage rate or Actual expenses. The standard mileage rate for 2002 is 36.5 cents per mile. For 2003, this amount is decreased to 36 cents per mile.
2. Interest on the vehicle is not deductible if the minister is an employee.
3. The church that employs them often covers expenses for ministers who are employees. The method of this coverage is important to know for taxation purposes.

a) If the church has an **accountable plan** which reimburses the minister for vehicle expenses based on either the actual expenses or a mileage rate equal to or less than the government rate, then the expenses are not income to the minister. Under an accountable plan, the church must require the minister to substantiate the mileage incurred in a manner similar to other taxpayers. If actual expenses are reimbursed, the minister must also substantiate the expenses. Extra expenses the minister may have due to exceeding the church's maximum reimbursement could be deducted in the same manner as all other taxpayers.

b) If the church has a **nonaccountable plan**, then the minister will report the entire amount in income and claim all proper expenses. An example of a nonaccountable plan is one that pays a minister a flat monthly allowance and requires neither an accounting of the expenses nor a return of excess expenses. Amounts paid under a nonaccountable plan should be reported on the minister's W-2 in box 1 as additional wages.

D. Other expenses paid by the minister should also be reported in similar

methods.

1. Meals and entertainment expenses are subject to the normal 50% reduction.
2. Travel expenses for attending church conventions, speaking engagements, performance of religious ceremonies, mission work, and youth functions would be deductible.
3. Educational expenses are deductible including tuition, books, fees, and travel expenses. Travel as a form of education is not deductible, such as trips to Israel.
4. Items which are expected to have a life of more than one year must be depreciated unless expensing under § 179 is claimed. This usually includes a large portion of the minister's library.
5. Newspapers, magazines, videotapes, etc. may be business deductions if they are used primarily for business. Just as for other taxpayers, the IRS tends to deny the deduction for the local newspaper since most taxpayers would receive this for personal purposes.
6. Vestments, robes, collars, and other special clothing which is not suited for general wear would be deductible including the cost of cleaning.
7. Long distance business related telephone calls are deductible. The local line costs are generally considered to be personal for all taxpayers.
8. Moving expenses paid by the minister would be an adjustment to income similar to all other taxpayers.
9. Gifts that the minister makes may be deductible if they are in relation to the ministry. Examples include music for the choir, church, or school, tracts, baptismal and wedding remembrances, and teaching aids.
10. Contributions that the minister makes to the church are deductible on Schedule A and are very rarely business expenses.

- E. Ministerial expenses must be allocated to taxable and tax-exempt ministerial income. The portion of expenses allocated to taxable income is deductible and the portion allocated to tax-exempt ministerial income is nondeductible.
1. This allocation is required whenever a minister receives tax-exempt income as part of his ministerial income.
  2. Most ministers receive a wage package from the church which includes some wages which are taxable and some which may be tax-exempt. The potential tax-exempt portion is the housing allowance some of which may be tax-free as discussed earlier. *fMelvis Dalan, TC Memo 1988-106, Deason 41 TC 465, McFarland, TC Memo 1992-440]*

**Example:** Minister Henry has professional expenses of \$5,000 related to his work for the church. His W-2 from the church shows taxable wages of \$24,000. **His housing allowance is \$8,000. The amount he can report on Form 2106 is \$3,750** [ $\$5,000$  (expense) x  $\$24,000$  (taxable earnings) +  $\$32,000$  (total earnings)].

**Worksheet:** In the back of this text is a worksheet designed to assist you in this calculation~ It will separately calculate the amounts for each segment of Form 2106, as well as determine the amount to be reported as income for Schedule SE. This worksheet is not copyrighted and can be copied as desired.

## VIII. Social Security and Medicare Taxes

- A. FICA taxes are paid partly by the employee and partly by the employer. SECA taxes are paid entirely by the self-employed person and are commonly referred to as SE taxes. FICA taxes are reported to the government through the Form 940 series and Forms W-31W-2s. SE taxes are reported to the government through Schedule SB attached to Form 1040. The two are separate, yet can be considered the same for our purposes.
- B. Social Security taxes and Medicare taxes combine to make up the FICA/SE taxes. Medicare taxes are assessed on all earned income while Social Security taxes are only assessed on a limited amount of the earned income.

- C. Ministers are responsible for their own SE taxes. Although most ministers are employees for income tax purposes, they are always self-employed for social security/Medicare tax purposes. As such the church cannot withhold FICA taxes, nor pay the employer's share.
- D. A minister is subject to SE taxes on his net ministerial income. This is calculated as if the minister had reported all of his income (including housing allowance) and expenses on Schedule C. Using a Schedule C as a worksheet to show how the Schedule SB income is calculated may be useful. Show:
1. Taxable wages as income.
  2. The housing allowance in full as income.
  3. Related expenses in full as expenses. Reimbursements must be taken out before totaling the related expenses. Since all of the ministerial income is taxable for SE purposes, the formula would equal 100% deductible. Meals and entertainment must still be reduced by the 50%.
  4. Interest paid on the business use portion of the Minister's automobile is an expense.
- E. Any member of a religious organization which has taken a vow of poverty is automatically exempt from self-employment tax on ministerial income.
- F. A minister other than those described in the previous sentence can elect out of the SECA system for his ministerial income *based on religious Opposition to the acceptance of any public insurance that makes payments because of death, disability, old age, or retirement, or makes payments toward, or provides services for, medical care (including Social Security)*.
1. To elect out of SECA coverage, a minister should file Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Member of Religious Order, and Christian Science Practitioners.
  2. This form must be filed in triplicate by the due date (including extensions) for filing the minister's income tax return for the second year in which he has \$400 or more of net earnings from ministerial services. [Regulation 1.1402(e) – 3A(a)]

**Note:** Although the regulations state "The due date (including extension)", a 6-month extension is granted from the original due date without regard to extensions to make this election. This makes the due date for Form 4361 six months after the normal unextended due date for the minister's Form 1040. The filing for Form 4361 after the due date should include the statement "FILED PURSUANT TO REVENUE PROCEDURE 92-35" at the top of the form.

3. The minister must inform his church that he is conscientiously opposed to, or because of religious principles is opposed to, the acceptance of public insurance benefits based on ministerial services.
4. The IRS will mail a statement to the minister outlining the grounds for receiving the exemption. If the minister agrees to these grounds, he must sign, have certified, and return the statement to the IRS within 90 days after it is received. When the IRS receives the signed and certified statement, they will return a copy of Form 4361 marked "approved". This should be retained by the minister forever.
5. Once the approval is granted by the IRS it is irrevocable and is applicable to all open years and all future years. Therefore if a minister has paid SE taxes on ministerial income in any prior year which is still open by the normal statute of limitations, the minister can obtain a refund of such taxes. (There have been two short periods of time that Congress has permitted ministers to elect back into the SECA system, with the latest period ending April 15, 2002.)
6. This exemption is applicable only to ministerial income. Other services provided by the minister are not exempt such as working in a grocery store or preparing income tax returns.
7. After receiving approval, the minister will no longer have to file Schedule I SE for his ministerial income. If this is the only self-employment income he has, he should write "Exempt-4361" to the left of the SE tax line on Form 1040. If he has other self-employment income, he should check box A on part 1 of Schedule SE and compute the SE tax on his other self-employment income.

## IX. Retirement

- A. Putting aside for retirement is just as important for a minister as it is for all taxpayers.
1. A minister who is an employee is eligible to participate in a qualified pension plan through the church. *[Revenue Rulings 73-258 & 73-381]*
  2. Many of these have 403(b) plans set up through the national office of the denomination.
  3. All ministers are eligible to make contributions to an IRA. The deductibility of the contributions may be limited if the minister is covered by a qualified plan through the church, such as a 403(b).
  4. A minister who is self-employed for income tax purposes may set up his own retirement plans including setting up a SEP, Keogh, or SIMPLE. (These are covered plans for purposes of limiting the deductibility of IRA contributions.)
- B. Receiving pension income is generally the same for a minister as for other employees.
1. One common difference can exist. Pension distributions that are designated as "housing allowance" are considered to be housing allowances and tax-exempt as described earlier. The taxable portion is reportable as pension income.
  2. This designation must come from the former employing church or denomination (whichever is paying out the retirement) prior to the payment to the minister. It is not something that the minister can choose on his own. *[Revenue Rulings 63-156 & 62-117]*
  3. Even if a pension is designated as a housing allowance, the pension is not subject to SE taxes.

## Clergy Worksheet

**Income from the church:**

- A. Taxable income  
 B. Nontaxable income  
 C. Total income from clergy work from church.

A. \_\_\_\_\_  
 B. + \_\_\_\_\_  
 C. = \_\_\_\_\_

**Taxable percentage of income from church**

- D. Taxable income  
 E. Total income  
 F. Taxable percentage

D. \_\_\_\_\_  
 E. + \_\_\_\_\_  
 F. = \_\_\_\_\_ %



**Part I Auto expenses**

1. Auto expenses  
 2. Reimbursements, if any  
 3. Subtract  
 4. % from line F above  
 5. Multiply line 3 by line 4  
 6. Reimbursements from 2 above  
 7. Add 5 & 6. Enter on 2106, Part II

1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_  
 4. \_\_\_\_\_ %  
 5. \_\_\_\_\_  
 6. \_\_\_\_\_  
 7. \_\_\_\_\_

**Part II Other traveling expenses**

8. Auto rental, taxi, bus, etc.  
 9. Lodging  
 10. Parking & tolls  
 11. Telephone  
 12. Other  
 13. Add 8-12  
 14. Reimbursements, if any  
 15. Subtract 14 from 13  
 16. % from line F above  
 17. Multiply line 15 by line 16  
 18. Reimbursements from 14 above  
 19. Add 17 & 18. Enter on 2106, Part I

8. \_\_\_\_\_  
 9. \_\_\_\_\_  
 10. \_\_\_\_\_  
 11. \_\_\_\_\_  
 12. \_\_\_\_\_  
 13. \_\_\_\_\_  
 14. \_\_\_\_\_  
 15. \_\_\_\_\_  
 16. \_\_\_\_\_ %  
 17. \_\_\_\_\_  
 18. \_\_\_\_\_  
 19. \_\_\_\_\_

**Part III Meal and Entertainment expenses**

20. Meal and entertainment expenses from 2106, Part II 20. \_\_\_\_\_  
21. Less reimbursement 21. \_\_\_\_\_  
22. Subtract line 21 from line 20 22. \_\_\_\_\_  
23. % from line F above 23. \_\_\_\_\_ %  
24. Multiply line 22 by line 23 24. \_\_\_\_\_  
25. Reimbursements from 21 above 25. \_\_\_\_\_  
26. Add 24 & 25 Enter on 2106, Part I 26. \_\_\_\_\_

**Part IV Professional Expenses**

27. Books, publications, subscriptions 27. \_\_\_\_\_  
28. Educational expenses 28. \_\_\_\_\_  
29. Office equipment (depreciation) 29. \_\_\_\_\_  
30. Office supplies & postage 30. \_\_\_\_\_  
31. Seminars 31. \_\_\_\_\_  
32. Telephone 32. \_\_\_\_\_  
33. Other 33. \_\_\_\_\_  
34. Total. Add lines 27-33. 34. \_\_\_\_\_  
35. Less reimbursement 35. \_\_\_\_\_  
36. Subtract 35 from 34 36. \_\_\_\_\_  
37. % from line F above 37. \_\_\_\_\_ %  
38. Multiply line 36 by line 37 38. \_\_\_\_\_  
39. Reimbursements from 35 above 39. \_\_\_\_\_  
40. Add 38 & 39. Enter on 2106, Part I 40. \_\_\_\_\_

**Part V Self-employment income**

Incomes:

1. Salary from W2 1. \_\_\_\_\_  
2. Parsonage/housing allowance in full 2. \_\_\_\_\_  
3. Utility allowance 3. \_\_\_\_\_  
4. Net profit from Schedule C 4. \_\_\_\_\_  
a. Total income (add 1-4) a. \_\_\_\_\_

Expenses

5. Expenses from Part I, line 3 5. \_\_\_\_\_  
6. Expenses from Part II, line 15 6. \_\_\_\_\_  
7. Expenses from Part III, line 22 x 50% 7. \_\_\_\_\_  
8. Expenses from Part IV, line 36 8. \_\_\_\_\_  
b. Total expenses (add 5-8) b. \_\_\_\_\_  
c. Subtract b from a. This equals the SE income c. \_\_\_\_\_