

Leaflet X02: Self Assessment and the Minister

Guidance Notes on the completion of the Minister's Tax Return

These notes are offered for guidance by The Baptist Union of Great Britain and have been updated from the original guidance provided by Philip J Cooke FCA: Previous Honorary Taxation Adviser to the Baptist Union of Great Britain.

1 Introduction

1.1 Ministers whose affairs are relatively straight-forward and who account for their tax liability entirely through the PAYE system may not automatically receive a tax return. There is, however, a legal requirement to notify chargeability to tax if there is untaxed income to declare (such as casual preaching and other fees, taxable benefits or income from investments or property).

1.2 Returns can be made in paper form or online. The main form SA100 (**TR**) is a six page document and is common to most taxpayers. It is supplemented by a further four pages for the inclusion of 'Additional Information' (**Ai**), which only has to be completed and returned if relevant.

1.3 The items in the main (**TR**) return that are likely to be of greatest application are (on page 3) details of investment income (boxes 1-6) and particulars of any pensions received (boxes 7-14), whilst on page 4 there is space for claiming reliefs for any pension contributions which are not deducted from stipend for PAYE purposes (boxes 1 to 4), Gift Aid payments (boxes 5-10) and the Blind Person's allowance (boxes 11-14).

1.4 Particulars of ministerial income (stipend, fees, benefits and expenses etc.) have to be shown on supplementary pages (form SA102M referred to as **MoR** pages), guidance upon the completion of which is set out in section 2 of these notes. One section of the Additional Information (**Ai**) pages which will be relevant to a minister (or spouse) born before 6 April 1935 is the claim for age-related married couple's allowance. There is also a section (on page 2) relating to 'employment lump sums and compensation' which may become relevant to ministers. It has been customary for a church and/or its members to make an ex gratia payment to a minister following the termination of a ministry 'in recognition of the personal esteem in which the minister has been held by members of the congregation and this has been exempt from tax provided it does not exceed £30,000 and the payment is not made on the occasion of a minister's retirement. [*See [Taxation Guidance Notes for Churches and Ministers](#) for further information*]. However, the Government is presently consulting on changes to be made to the taxation of lump sum payments and such changes may well affect the kind of payment made following the termination of a ministry.

1.5 There is an alternative four page 'Short Tax Return' (**PG** - form SA200) for use in less complex cases and which might be received by retired ministers in particular. A serving minister will, as previously mentioned, also need to complete the supplementary **MoR** pages, specially designed for 'ministers of religion'. Other supplementary pages which may be relevant include the **UKP** pages (form SA105 dealing with income from property) and the **CG** pages (capital gains summary form SA108). If supplementary forms are relevant then it is necessary to indicate this by ticking the appropriate boxes on page 2 of the main return. Supplementary pages (with explanatory notes and help sheets) can be downloaded from the HMRC section of the UK.GOV web site.

1.6 Taxpayers are required by law to keep all documents which are relevant to the completion of a tax return for at least 22 months after the end of the tax year. These documents will include: form P60 (end of year pay and tax certificate), form P45 (received upon termination of an employment), form P11D (details of expenses payments and benefits), statements and certificates relating to other types of income (e.g. bank statements, interest certificates, dividend counterfoils), invoices and receipts relating to expenses incurred in the performance of duties and for which deductions are claimed, and particulars of church-business mileage for which mileage allowances have been reimbursed, etc.

1.7 A **paper** tax return must be completed and returned by **31 October** and failure to do so may give rise to a £100 penalty (with a further £100 penalty becoming due if the return is not received by the HMRC by the following **31 July**). Provided the return is received by 31 October the HMRC will calculate any tax due for payment before the 31 January deadline, or alternatively will (if possible) collect any underpayment up to £3,000 by way of adjustment to the PAYE coding for the following tax year.

1.8 If you choose to file your return **online** the deadline is **31 January** following the end of the tax year, at which date any balance of tax due also becomes payable. [See section 4 below for more information about filing online.]

1.9 The receipt of other income in addition to stipend (e.g. casual fees, rental and investment income) might cause tax payments to have to be made on account for the succeeding (i.e. current) tax year. Such payments are due on 31 January and 31 July and will be equal to one-half of the previous year's liability. If any such payments need to be made the Revenue will issue a statement of account before the first instalment becomes due, provided you have elected to let the Revenue calculate the liability and have submitted the return by 31 October. If you choose to compute your own liability then the onus is upon you to make the calculation correctly and to make the appropriate payments on account on the due dates. Any liability to capital gains tax will also be due for payment on 31 January following the year in which the gains arose and, again, if you wish the Revenue to make this calculation it is necessary to file your return (including the CG supplementary pages) by 31 October.

1.10 The tax affairs of most ministers will be relatively straight-forward and they should be able to complete the tax return and relevant supplementary pages without too much difficulty. If, however, your affairs are more complex it may be appropriate to seek professional help. The Revenue's guidance notes (TRG) to the main return (TR) are quite clear and straightforward, but you might find the following notes of some help in relation to the completion of the **MoR** and **UKP** pages.

2 Completing the MoR pages:

2.1 These pages are the key pages of a minister's tax return. They contain a series of boxes in which the relevant figures of income, tax, benefits and expenses have to be entered. Any taxable benefits or expenses will be shown on the copy of the form P11D which should be handed to you by your church treasurer. The former 'P11D dispensation regime' came to an end as from 6 April 2016 and has been replaced by a statutory exemption in respect of any benefits or expenses which are clearly deductible for tax purposes. The onus will rest upon the church to determine whether particular expenses are deductible but expenses that are commonly paid on behalf of, or reimbursed to, ministers, such as travel and subsistence expenses incurred in attending assemblies and conferences etc., postages, stationery, computer consumables and other church business incidentals, books needed for service and sermon preparation etc., and official entertaining or hospitality expenses. Allowable expenses - including mileage allowances and relocation expenses which are within HMRC approved scales or limits - do not have to be shown on the form P11D or in the minister's tax return. A manse landline telephone/broadband connection and/or a mobile phone which has been provided by the church for church-business use is also exempt. [See [Taxation Guidance Notes for Churches and Ministers](#) for further information].

2.2 As from 6 April 2017, except where a minister's total emoluments (i.e. stipend plus benefits and expenses) are less than £8,500 pa), the reimbursement by a church of manse light and heat expenses

incurred by a minister has to be 'payrolled' for income tax (but not for Class 1 NIC) purposes as part of the PAYE process - **except to the extent that they represent expenses incurred for church-business purposes**. The onus is upon the church to be satisfied about the proportion of expenses claimed for church-business use of the manse, but provided a reasonable estimate of the allowable proportion has been agreed between church and minister at the start of a tax year, HMRC has indicated that this proportion can be used as a deductible allowance for payroll purposes - and only if there is a significant deviation from this within the year will it then be necessary to make a balancing adjustment.

2.3 There follows an explanation of the various boxes which form part of the **MoR** pages and how they should be completed. Figures should be shown in round pounds (income being rounded down and tax and expenses rounded up). The bold italicised references which follow are to the boxes appearing in the **MoR** pages.

Boxes 2 to 12 relate to income as a minister of religion:

2 and 3 (Stipend and tax deducted): The amounts of pay and tax as shown by forms P60 or P45 should be shown here. If there is more than one employment in the tax year, then separate **MoR** pages are required for each employment.

4 (Fees and offerings): This box is for the amount of any casual preaching or other fees received which have not been included in the P60 figure of income. If fees received are inclusive of travelling expenses then it is in order to deduct from the total amount received mileage expenses at HMRC approved rates.

5 (Manse expenses paid on your behalf): This box will contain any manse bills paid for by the church for which you are responsible but do not include any council tax or water charges relating to accommodation which has been provided for you by the church, and which ought not to appear on form P11D in any event. [Note that, until 5 April 2017, amounts reimbursed by the church in respect of manse lighting and heating costs incurred by you should be entered at box 17 but the arrangements will then change – see below for further information.]

6 (Personal expenses paid for you): An entry in this box will be unusual but if the church has paid any personal (as opposed to church business) expenses on your behalf, or you are not entitled to the provided accommodation exemption which is available to most pastoral ministers, this box will be relevant and details will have been entered on your form P11D.

7 (Excess mileage allowance etc.): If you have received mileage allowance in excess of the approved rates (45p per mile for the first 10,000 of church business miles and 25p per mile thereafter) you should enter the amount of the excess in this box. If the mileage allowance you receive is less than the approved rates you can claim any shortfall in box **21**.

8 and 9 (Round sum expenses and rent allowances): Any 'round-sum' expense allowance or 'housing allowance' must be included here if it has not already been 'payrolled' (i.e. included in your total income for income tax and NIC purposes) but please note that any rental income paid to you and your spouse under a lease agreement with your church represents income from property which will need to be included on the supplementary **UKP** pages (see below). If tax has been deducted separately from a 'round-sum' expense or 'housing' allowance (as opposed to being included as part of your stipend income) the amount of the tax should be shown in box **9**.

10 and 11 (Other income etc.): Any other income from your appointment (and the tax deducted) should be entered here, if not already included in the P60 figures. For example, income from a chaplaincy which is associated with your church appointment - but not a quite separate chaplaincy which will be dealt with at boxes **36 and 37**. You should also include any gifts or grants received by reason of your work as a minister, but not small personal trivial gifts in kind which are exempt from tax provided they do not form part of a 'salary sacrifice' arrangement. Any grants given to ministers generally are normally taxable, though a lump sum grant made to alleviate hardship peculiar to a minister's personal circumstances may not be taxable.

12 (Total income as a minister of religion): This will be the total of box 2 + boxes 4 to 8 + box 10.

Boxes 13 to 19 relate to benefits and expenses payments received as a minister of religion:

13 (Manse service benefits): If, as will usually be the case, you are occupying manse accommodation provided by your church for the better performance of the duties of your office, the annual value of such accommodation is exempt from tax and does not have to be shown in this box. Likewise, as mentioned above, payments by the church in respect of council tax, water charges and buildings insurance paid by the church relating to that accommodation are not taxable and do not have to be shown in this box or in box **5**, neither should they appear on form P11D. Any other manse service benefits, including internal repairs or decorations (other than repairs to or replacement of landlord's fixtures and fittings - such as electric, gas, water and central heating installations, fitted kitchens and bathrooms etc.) should have been shown on form P11D and will need to be included in box **13**. Similarly, if manse lighting and heating bills are in the name of and are paid by the church, these also need to be included, though in order to avoid liability to Class 1A NICs these accounts ought to be in the name of, and be paid by, the minister - reimbursement being made by the church of all or part of such expenses. Until 5 April 2017 such reimbursements will be shown at section N of form P11D and will be included in box **17**. [See note under box **17** and also [Taxation Guidance Notes for Churches and Ministers](#) for further information in this respect.]

14 and 15 (Car and fuel benefits): In the rare event that a church provides a car for its minister then the cash equivalent amounts of these benefits must be shown.

16 (Beneficial loan): If a church has provided a minister with an interest-free or low-interest loan or loans exceeding £10,000 then the amount of the taxable benefit (as shown on form P11D) must be included here.

17 (Expenses payments): Enter in this box any non-deductible expenses paid or reimbursed by the church which have not already been taxed under the PAYE system as shown on form P11D. [Until 5 April 2017 these will include reimbursed manse lighting and heating expenses - against which you can claim a deduction for the church-business proportion in box **25**. *[As indicated above (at 2.2), as from 6 April 2017 the non-church business proportion of these expenses (as agreed between you and the church) will be 'payrolled' through the PAYE system.]*

18 (Other benefits): Enter any amounts remaining on form P11D not already entered in the previous boxes. These might include any relocation expenses in excess of the £8,000 exemption limit.

19 (Total benefits and expenses): This will be the total of boxes 13 to 18.

20 (Taxable income before expenses paid): This will be the total of boxes **12 and 19**.

Boxes 21 to 26 relate to expenses for which you may be able to claim a deduction if they have not already been paid or reimbursed by the church as tax deductible expenses:

21 (Travelling expenses and capital allowances): Travel and subsistence expenses incurred on church business journeys will most probably have been paid or reimbursed by the church but if any such expenses have been incurred personally, or mileage allowance has been reimbursed at less than the HMRC approved rates, you should include them (or the difference) here. If you personally incur expenditure on essential office equipment, such as a computer or photocopier or for major theological reference books, you may be entitled to claim capital allowances. (See [Taxation Guidance Notes for Churches and Ministers](#) for further help.)

22 (Manse maintenance, repairs and insurance):

If you are residing in a church-provided manse then any expenditure incurred by the church on external repairs and decoration, or on buildings insurance, will not give rise to a taxable benefit. However, expenditure by the church on internal repairs and decorations (other than repairs and maintenance of fixtures in the nature of landlord's fixtures) or contents insurance will give rise to a taxable benefit which should appear on the form P11D and be the subject of an entry in box **13**. In these circumstances, or where the expenditure is incurred personally, you are entitled to claim a deduction equal to 25% of such expenditure which should be entered in box **22**. You may also claim up to 25% of any manse cleaning expenses which you incur.

23 (Rent paid): In the unusual event that you personally, rather than the church, rent a house from which you perform your ministerial duties (i.e. because there is no church-provided accommodation) you are entitled to claim up to 25% of the rent paid in respect of church-business use, and this should be entered in box **23**.

24 (Secretarial assistance): You can deduct the cost of secretarial assistance necessary for your work, including reasonable sums paid to a spouse for such duties. However, you cannot deduct sums paid to a spouse for services rendered as a church member, e.g. as a leader of a fellowship meeting.

25 (Other expenses): You should include here any other expenses incurred in connection with your duties as a minister of religion which have not been reimbursed to you by the church - including books used for service and sermon preparation (but not books or periodicals used for general background reading); stationery, postage, computer consumables etc; the upkeep and replacement of ministerial clothing (gowns, shirts, collars etc.); expenses incurred in entertaining visiting clergy, church officers and members on official occasions (but not socially); subscriptions to job-related professional bodies (such as the Baptist Ministers' Fellowship); and the cost of engaging someone to perform your ministerial duties temporarily.

Until 5 April 2017 you are entitled to claim a deduction for the church-business proportion of the total amount of manse lighting and expenses incurred - regardless of who actually made payment and the amount claimed will be entered in box **25**. As indicated at 2.2. above, from 6 April 2017 the reimbursement by the church of the non-church business element of such expenses has to be 'payrolled' (for income tax purposes only) under the PAYE system - but to the extent that a minister has not been fully reimbursed on a tax-free basis for the church-business proportion of these expenses (e.g. because the church cannot afford to do so) you should include the appropriate amount or difference in box **25**.

26 (Total expenses): This will be the total of boxes 21 to 25.

Boxes 27 to 35 relate to the calculation of the 'Service Benefit cap':

Taxable manse service benefits (i.e. those which are entered at boxes **5 and 13**) cannot exceed 10% of the minister's net income. The **MoR Pages and Notes** explain, in a somewhat complicated way, how the Service Benefit 'cap' is computed. It will tend to apply only where manse service benefits are relatively high, but the following example might assist in demonstrating whether or not the 'cap' applies. If it does, then it will be necessary to complete the relevant boxes - which, hopefully, should arrive at the same result as indicated in the example.

Example of calculation of 'service benefit cap':

Assume that manse service benefits and expenses (net of any contribution which you make towards them) at boxes 5 and 13 total £2,800

Ascertain total ministerial income, benefits and expenses (as per box 20)	(say) £27,000
Deduct: Manse service benefits or expenses (boxes 5 and 13)	(2,800)
Total expenses as per box 26 (which will include the church-business proportion of the manse service benefits or expenses)	(say) (2,000)
Any payments to pension schemes which have not already been deducted from pay for PAYE purposes (e.g. FSAVCs)	(say) (800)
Net income	<u>21,400</u>
10% thereof	= 2,140
Manse service benefits	= <u>2,800</u>
The excess ('cap') to be entered in box 35 is therefore	<u>660</u>

Boxes 36 and 37 relate to any other ministerial income:

Details of any other ministerial income (e.g. a quite separate chaplaincy) not already included in box **10** should be included in box **36** with details of any tax deducted shown in box **37**. Pensions received by a Baptist minister whilst also serving in a ministerial post will, however, be included in the main return.

Finally, make sure that you complete boxes **38 and 39** showing the final totals of taxable income and tax suffered.

3 Property income:

3.1 Income from property, whether from a property leased to a church for use as a manse, or a property let to a third party, has to be included in the supplementary UK property (UKP) pages, and where that property is jointly owned by a minister and spouse then one-half of the rental income and of the relevant expenses will need to be included in each of their respective returns. Boxes **5 to 19** on the front page are concerned only with Furnished holiday lettings and will not therefore be applicable to a property let for use as a manse.

3.2 The share of rental income will be shown in box **20**.

If, under the terms of the lease, the landlord is responsible for buildings insurance then the share of that insurance should be entered at box **24**. The share of any repairs or maintenance expenditure for which the landlord is responsible will be entered in box **25**. Except in cases where rental income includes rent received in respect of a lease to the church of the minister's property, it is possible to opt for what is known as a Property Allowance of £1,000 (entered in box **20.1**) in lieu of making a claim for specific expenses.

Tax relief in respect of any loan interest is no longer treated as a property expense but is given by way of a reduction of income tax payable limited to the basic rate (presently 20%), and the amount of interest paid (exclusive of any capital repayments) should be entered in box **44**.

Enter in box **38** the adjusted profit (which will in most cases be box **20** less the total of boxes **24** and **26**), and in box **39** any loss brought forward to give, either a taxable profit in box **40**, or a loss in box **41** and, where applicable, the total amount of any unused losses carried forward to the following year in box **43**. (See *HMRC UK Property Notes-SA105Notes* for further details)

4 Investment income:

This will be entered in the appropriate sections of the main return. As from 6 April 2016 all payments of interest are received 'gross' and may therefore give rise to a tax liability if the total amount of interest received exceeds the 'personal savings allowance' of up to £1,000 for basic rate tax payers and up to £500 for higher rate tax payers. Again, as from 6 April 2016, dividends no longer carry a tax credit and may therefore give rise to a tax liability, subject to the availability of an annual dividend allowance of £5,000 which is to be reduced to £2,000 as from 2018-19.

5 Filing returns online:

There is much to be said for filing online (eg the extended deadline for filing and the instant calculation of liability) but, because the **MoR** pages do not form part of HMRC's online software, it is necessary to use commercial software if you wish to file on line. There are many versions of software available and those which have been accredited by HMRC are listed on the UK.GOV web site. Many ministers have, over the years, chosen to use the software provided by *GoSimpleTax* who now offer ministers of religion a 30% discount off their normal price. Further information is available in a new leaflet which can be accessed at: info.gosimpletax.com/mor

HMRC has been asked whether ministers might, in appropriate circumstances, opt to use the ordinary self assessment tax return form (SA100) since this would then enable them to use the HMRC online filing facility. If there is a favourable response further details will be made known immediately.

Contributed by Philip Cooke FCA: Previous Honorary Taxation Adviser to BUGB

The foregoing notes are offered by way of general information to Baptist churches but neither the contributor nor the Baptist Union of Great Britain can accept responsibility for any loss arising from any action, or failure to take action, in consequence of material contained therein. If in doubt independent professional advice should be sought. Reference should also be made to the Taxation Guidance Notes for Churches and Ministers (F06)

Finance Team, Baptist Union of Great Britain, Baptist House, PO Box 44, 129 Broadway, Didcot OX11 8RT

Tel: 01235 517700 Email: financeoffice@baptist.org.uk Website: www.baptist.org.uk

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