

BUC GUIDELINES

F13 Self Assessment and the Minister (01/2010)

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

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Reference should also be made to the author's Taxation Guidance Notes for Churches and Ministers.

1 Introduction

- 1.1 Ministers whose affairs are relatively straight-forward and who account for their liability entirely through the PAYE system or as a result of deduction at source, may not automatically receive a tax return. Whilst it is necessary to submit a return only where a notice to do so is issued (usually in the form of the issue of a tax return form), there is nonetheless a legal requirement to notify chargeability to tax if there is untaxed income to declare (such as casual preaching fees, taxable benefits like manse lighting and heating expenses or rental income from property), or additional tax becomes chargeable (eg higher rate tax on investment income).
- 1.2 The tax return forms for the year 2008 (ie for the tax year ending 5 April 2008) have been redesigned and simplified. The main form (**TR**) is now 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). Particulars of ministerial income (stipend, fees, benefits and expenses etc) will, as previously, be included on supplementary pages (now 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 did not feature in the old style return, though there was a reference to these on the old style **M** pages. However, nothing has changed in the provisions governing lump sum payments and an ex gratia payment made by a church and/or its members to a minister following the termination of a ministry 'in recognition of the personal esteem in which the minister has been held by the members' continues to be exempt from tax provided it does not exceed £30,000 and the payment is not made on the occasion of the minister's retirement. *[See Taxation Guidance Notes for Churches & Ministers for further information.]*
- 1.4 There is still an alternative four page 'Short Tax Return' (**PG**) 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 (dealing with income from property) and the **CG** pages (capital gains summary). 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) are obtainable through the Revenue Orderline (telephone 0845 9000 404 or fax 0845 9000 604).

- 1.5 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 (or P9D) (details of expenses payments and benefits), statements and certificates relating to other types of income (eg bank statements, interest certificates, dividend counterfoils), invoices and receipts relating to expenses incurred in the performance of your duties and for which deductions are claimed, and particulars of church-business mileage for which mileage allowances have been reimbursed, etc.
- 1.6 A **paper** tax return must now 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 Revenue by the following **31 July**). Provided the return is received by 31 October the Revenue will calculate any tax due for payment before the 31 January deadline, or alternatively will (if possible) collect any underpayment up to £2,000 by way of adjustment to your PAYE coding for the following tax year.
- 1.7 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. To file online go to www.hmrc.gov.uk and from the *Do it online* menu (on the left of the screen) select *Self Assessment*. The Revenue would clearly like more taxpayers to file their returns online and it is for this reason that the filing deadline for paper returns has been shortened to 31 October.

[Note: It is not presently possible for the MoR pages of the tax return to be filed online using the free Revenue software so that online filing is possible only by using commercial software. It is hoped that this deficiency will eventually be remedied.]
- 1.8 The receipt of other income in addition to stipend (eg casual fees or investment income) might cause tax payments to have to be made on account for the succeeding (ie 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.
- 1.9 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

These pages (which have also been simplified and redesigned) 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. In completing these pages it is important to note that if a P11D dispensation has been issued on your behalf it will not be necessary for any of the expenses or benefits covered by the dispensation to be included in any of the boxes. It follows that it will be most helpful for a dispensation to be in place and if your church treasurer has not already done so, he/she should be urged to apply for one without delay. The

dispensation will not, however, extend to items for which taxable benefits arise (such as reimbursed manse lighting and heating expenses or other service benefits) but it can cover most other expenses that are commonly reimbursed to ministers, including travel and subsistence expenses (eg incurred in attending assemblies and conferences etc), church business telephone calls, books needed for sermon preparation etc, postages, stationery and incidentals, and official entertaining/hospitality expenses. Mileage allowances which are within the Revenue approved scale of rates are not now required to be included on form P11D or in a minister's tax return.

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 being 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 & 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 & offerings):

This box is for the amount of any casual preaching or other fees received. If fees received are inclusive of travelling expenses then it is in order to deduct from the total amount received mileage expenses at the Revenue approved rates.

5 (Manse expenses paid on your behalf):

This box will contain any personal or manse expenditure which the church has borne on your behalf (ie bills which are in your name but which have been paid directly by the church). Where manse lighting and heating expenses have been paid by you but have been reimbursed in whole or in part by the church the reimbursements should be entered in box 17.

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.

7 (Excess mileage allowance etc):

If you have received mileage allowance in excess of the approved rates (40p per mile for the first 10,000 of church business miles and 25p per mile thereafter) or have received passenger payments in excess of the approved 5p per passenger for each mile travelled, you should enter the total 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**, but you cannot claim relief for any shortfall of passenger payments.

8 & 9 (Round sum expenses and rent allowances):

Any 'round-sum' expense allowance or 'housing allowance' must be included here, 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 & 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 & 37**). You should also include any gifts or grants received by reason of your work as a minister but not any personal gifts, such as birthday presents. 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):

Note that if you are occupying manse accommodation 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 council tax, water charges and buildings insurance paid by the church in respect of manse 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 included 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 will also need to be included, but in order to avoid liability to Class 1A NICs it is recommended that these accounts be in the name of and be paid by the minister, with reimbursement being made by the church of all or part of such expenses, such reimbursement then being included in box **17** [see also Taxation Guidance Notes for Churches & Ministers].

14 & 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 £5,000 then the amount of the taxable benefit (as shown on form P11D) must be included here.

17 (Expenses payments):

Enter in this box any payments or reimbursements of expenses (including manse lighting and heating expenses) paid or reimbursed by the church, unless these are covered by a form P11D dispensation. [Note that a dispensation cannot be issued for manse lighting and heating expenses.]

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): If your total income and benefits is at a rate of more than £8,500 pa then the figure to be entered at box **20** will be the total of boxes **12** and **19**, but if they are below the £8,500 threshold then any manse service benefits and expenses are excluded, in which case the figure at box **20** will be the total at box **12** minus box **5**.

Boxes 21 to 26 relate to expenses for which you may be able to claim a deduction. Remember that if a P11D dispensation has been granted in respect of particular expenses they should not be included in boxes 13 to 18 and will therefore not give rise to deductions or entries in boxes 21 to 26.

21 (Travelling expenses and capital allowances):

Travel and subsistence expenses incurred on church business journeys will most probably be the subject of a P11D dispensation, in which event no entries are required, but if they are not covered by a dispensation then any such expenses should be entered here. If you have to pay for 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 & 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 (ie because there is no church-provided accommodation) you are entitled to claim up to 25% of the rent paid and this should be entered in box **1M.24**.

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, eg as a leader of a fellowship meeting.

25 (Other expenses):

You should include here the claim for the proportion (up to a maximum of 25%) of the total manse lighting and heating expenses attributable to church business use. Note that the deduction should be claimed regardless of whether the lighting and heating expenses are reimbursed or borne by the church or are borne wholly by the minister. The amount reimbursed by the church (shown in section N of form P11D) should be entered in box 17 or - in the unusual case that lighting and heating accounts are still in the name of the church (giving rise to an entry in section K of the P11D) - in box 13.

To the extent that they are not covered by a P11D dispensation you may also claim expenses incurred, for example, on:

- a Books for use in services or for the preparation of sermons, but no deduction is available for books or periodicals used for general background reading. As indicated above, expenditure on major reference books should be the subject of a claim for capital allowances.
- b Stationery, postage, and computer consumables. The cost to a church of providing a telephone line at the manse is exempt from tax and church business calls should desirably be included in the P11D dispensation. [See Taxation Guidance Notes for Churches & Ministers for further guidance.]
- c The upkeep and replacement of ministerial clothing (gowns, shirts and collars etc).
- d Any expenses incurred in entertaining visiting clergy, church officers and members on official occasions (but not socially) up to the amount reimbursed by the church.
- e Annual subscriptions to certain job-related professional bodies (such as the Baptist Ministers' Fellowship).
- f The cost of engaging someone to perform your ministerial duties temporarily.

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 [including lighting, heating, cleaning, and internal decoration and repairs (other than to fixtures and fittings of a 'landlord's' nature)] cannot exceed 10% of the income of the post.

The **MoR Pages and Notes** explain, somewhat complexly, how the 'cap' (which tends to apply where manse service benefits are relatively high) is computed, but the following example should assist in demonstrating whether or not a 'cap' applies. If it does, then it will be necessary to complete the relevant boxes - which, happily, should produce the same answer as following the example below!

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 & 13 total £2,800.

Ascertain total ministerial income, benefits and expenses (as per box 20)	(say)	£22,000
Deduct:		
Manse service benefits or expenses (boxes 5 & 13)		(2,800)
Total expenses as per box 26 (which will include up to 25% 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 (eg FSAVCs)	(say)	<u>(800)</u>
Net income		<u>16,400</u>
10% thereof	=	1,640
Manse service benefits	=	<u>2,800</u>
The excess ('cap') to be entered in box 35 is therefore		<u>1,160</u>

Boxes 36 & 37 refer to any other ministerial income:

Details of any other ministerial income (eg 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 & 39** showing the final totals of taxable income and tax suffered.

3 Property income

Ministers who lease their properties to a church for use as a manse and receive rental income under the lease agreement will need to include this on the supplementary UK Property pages. Where a 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 their respective **UKP** pages. The front page is concerned only with Furnished holiday lettings and is therefore not applicable to a manse rental.

The share of rental income will be shown at box **18**. If, under the terms of the lease, the landlord (rather than the church) is responsible for buildings insurance then the share of that insurance should be entered at box **22**. The share of any repairs or maintenance expenditure for which the landlord (rather than the church) is responsible will be entered at box **23**, whilst the share of any loan or mortgage interest (exclusive of capital repayments) will be entered at box **24**. It is unlikely that any other of the remaining boxes will apply to the standard type of manse lease agreement, but reference should be made to the Revenue's UK Property Notes (UKPN) if necessary.

The share of profit or loss for the year (arrived at by deducting the sum of boxes **22 to 24** from box **18**) will be entered at box **36** if a profit, or box **39** if a loss. If there is a profit then this will be taken into account in the overall tax calculation for the year and may lead to requests for half-yearly payments of tax on account.

Alternatively, if the liability is small, tax may be collected by way of an adjustment to the PAYE coding. If there is an adjusted loss then this will be carried forward for set-off against any profits in subsequent years. Boxes **37 & 41** deal with any loss brought forward or carried forward.

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This is one of a series of *Guidelines* that are offered as a resource for Baptist ministers and churches. They have been prepared by the Baptist Union of Great Britain and are, of necessity, intended only to give very general advice in relation to the topics covered. These guidelines should not be relied upon as a substitute for obtaining specific and more detailed advice in relation to a particular matter.

The staff at the Baptist Union of Great Britain at Baptist House will be very pleased to answer your queries and help in any way possible. It helps us to respond as efficiently as possible to the many churches in trust with us if you write to us and set out your enquiry as simply as possible.

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