

Taxation for "Foreign" Priests

Sometimes priests ordained in other countries serve dioceses in the United States. This may be a temporary arrangement or an intended permanent arrangement. This section discusses some of the more common issues regarding the taxation of "foreign" priests.

☛ A general note:

The following discussion applies to priests who serve and are paid for their services in the United States. Priests from other countries, like other citizens from other countries, are allowed to vacation or otherwise visit the United States without income tax consequences.

☛ Priests who immigrate to the United States.

Priests ordained in other countries who legally immigrate to a diocese in the United States, are taxed in a similar manner as other U.S. taxpayers in that they must file Form 1040, but there are some differences in the manner in which they must prepare their tax returns for their year of immigration as follows:

- For the portion of the year that the priest resides in a foreign country, he must file a tax return in the foreign country (if required) reporting income to the point of departure to the United States. He will then report income earned in the United States on Form 1040.
- Across the top of Form 1040 write "Dual-status return."
- A first year immigrant is permitted a full personal exemption amount (\$3,800 in 2012), but may **not** use the standard deduction. Instead, he must check box 39b on page 2 of Form 1040 and use Schedule A to itemize his deductions regardless of the amount.
- If a priest maintains foreign investments after he becomes a resident of the United States, he must report the earnings from those investments on his U.S. Form 1040 converted to American dollars. If he also pays tax on his earnings in the country of origin, he may take a tax deduction on Schedule A for the amount of foreign taxes paid or tax a dollar-for-dollar tax credit by filing Form 1116. The amount of credit is limited to the lesser of the foreign tax rate or the United States tax rate.

In the second year of immigration (i.e., his first full year of residence in the United States), a legal resident alien priest should file an income tax return like that of a priest who is a citizen of the United States (as compared to his first partial year which has the special rules as outlined above).

... *Foreign Priests, continued.*

- Priests who are temporarily serving in the United States.

It usually does not matter how long a priest resides in the United States before he must pay income taxes, but there is one notable exception. On the following page is an application of the temporary employment rules as outlined in IRS Publication 513.

1. The priest is paid less than \$3,000 during his temporary stay, and
 - The priest is present in the United States for 90 days or less, and
 - The priest performs his services for an employer (e.g. foreign diocese) who is a nonresident organization.

If a priest meets **all three** of the above requirements, his income earned in the United States is tax exempt. Otherwise, he must pay income taxes on United States earnings.

- Priests who are members of religious communities of other countries.

Priests who belong to religious communities in other countries who have taken the vow of poverty are exempt from income tax in the United States just as priests who belong to American religious communities.

... *Caution.* When paying foreign priests who are members of religious communities, make the checks payable to the **community**, not the individual priest. If necessary to cash the check, make it payable to a person "in care of" the community, e.g.:

Pay to the order of: Brother John Doe % the Oblate Fathers of Polanda

- Social Security issues regarding foreign priests.

Once a foreign priest has earnings in the United States, those earnings become subject to Self-employment Social Security tax.

If a foreign priest serves long enough in the United States to become "vested" with Social Security (generally ten years), he is eligible to receive Social Security benefits even if he decides to return to his country of origin.

A foreign priest may become exempt from Social Security if he files Form 4361 within the prescribed time period (see Chapter I for details).